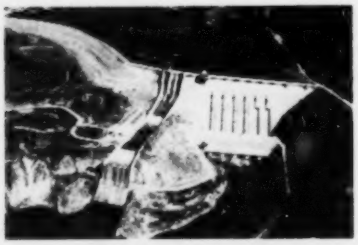

BC HYDRO

ANNUAL REPORT 2003

Reporting on Triple Bottom Line Performance

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MESSAGE FROM THE MINISTER

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Government of British Columbia

Minister of Energy and Mines
Minister Responsible for BC Hydro

Vancouver
July 2003

The Honourable Iona Campagnolo, PC, CM, OBC
Lieutenant Governor of the Province of British Columbia

Dear Madam,

As one of our leading Crown Corporations, BC Hydro provides low cost, reliable power to its customers all across the province. The new Energy Plan introduced by our government this past fiscal year will ensure this continues to be the case and also guarantee that BC Hydro remains a publicly owned Crown Corporation.

I am pleased to submit BC Hydro's annual report for the year ended March 31, 2003.

Yours respectfully,

Richard Neufeld

103-06446/

MESSAGE FROM THE CHAIR AND CEO

This past year at BC Hydro can be best characterized as a combination of challenges and opportunities. And in dealing with all of them, we kept the focus on our overall goal of becoming a "first quartile" performer when it comes to providing the lowest cost, most reliable electricity possible.

Perhaps this was nowhere more evident than in the provincial government's new Energy Plan. The Plan obviously has significant implications for BC Hydro, and we spent much of the year looking at how we were going to implement its various elements. At the same time, however, some of the Plan's key tenets – such as low electricity rates and secure, reliable service – remain fundamental to our core business.

The same can be said for the parts of the Plan related to future supplies of electricity. Our goal is to have the most economic, environmentally-friendly resource acquisition program in North America, and we took significant steps towards achieving that this past year. Our Power Smart program met its already ambitious goals, bringing with it the cheapest energy available. And the private sector really "stepped up to the plate" through the customer-based generation and green independent power programs, showing that they are more than capable of meeting our customers' future needs at competitive prices. Together, these programs will also allow us to meet the Energy Plan's voluntary target of having 50 per cent of new supply come from clean resources.

We also looked this year at opportunities to serve our customers better. That's what led to the formation of Accenture Business Services of British Columbia. The contractual guarantees for our customers are significant, including at least $250 million in cost savings over the ten-year contract and first-quartile customer service by the end of the third year.

Our employees did an outstanding job with both the challenges and opportunities this past year, and also showed tremendous commitment to our corporate goals. One example was corporate safety, where their efforts resulted in a record low number of incidents. This result has allowed us to meet our goal of first-quartile performance in safety. After considerable employee input, we also adopted an updated set of corporate values – integrity, teamwork, service and accountability – to help guide us into the future.

Even our Annual Report provided us with a new challenge this year. For the first time we have fully integrated it with our Triple Bottom Line report, something you will see in the organization and reporting in the Year in Review and the Lines of Business sections. This reflects not only our ongoing commitment to sustainability and reporting across all three bottom lines – economic, environmental and social – but also our vision of becoming the leading sustainable energy company in North America.

All of this past year's accomplishments bode well for the future. We look forward to more challenges and opportunities, which will include continued implementation of the Energy Plan and preparations for our revenue requirements application. We will do all of this while remaining committed to achieving first-quartile performance for you, our customers. In fact, we will take that one step further, by moving towards "operational excellence" – which means simply becoming the best.

Larry Bell

Larry Bell
Chair and Chief Executive Officer

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ABOUT THIS REPORT – THE INTEGRATION OF TRIPLE BOTTOM LINE REPORTING

This 2003 Annual Report covers BC Hydro's financial, environmental and social performance during the fiscal period April 1, 2002 to March 31, 2003 on all of BC Hydro's operations and subsidiaries. This report also provides a snapshot of what lies ahead for BC Hydro over the next few years.

In December 2000 BC Hydro committed to becoming a sustainable energy company and adopted a "triple bottom line" approach to managing our business in support of environmental, social and economic responsibility. Reporting on the three bottom lines allows us to benchmark our performance with other organizations to ensure we continue to remain in the forefront as a leader of sustainability.

Last year we published a section on Triple Bottom Line (TBL) performance in our Annual Report for the first time, along with producing a comprehensive Triple Bottom Line report. This year we took the additional step of fully integrating TBL reporting into the Annual Report. The added value is that it reduces the costs associated with reporting, and further demonstrates BC Hydro's commitment to sustainability. This integrated approach meets all the Crown corporation annual reporting requirements and incorporates a number of the sustainability criteria recommended in the Global Reporting Initiative (GRI) guidelines. GRI, launched in 1997, is a joint initiative of the U.S. non-governmental organization, Coalition for Environmentally Responsible Economies, and the United Nations Environmental Programme, with the goal of enhancing the quality, rigour and utility of sustainability reporting.

For additional measures that support BC Hydro's commitment to environmental, social and economic performance, and to learn how we compare against the GRI Guidelines, visit the BC Hydro web site at www.bchydro.com/annualreport.

Business of BC Hydro

- Under the *BC Hydro and Power Authority Act*, BC Hydro is to generate, manufacture, distribute and supply power; upgrade its power sites; and purchase power from or sell power to a firm or person.
- BC Hydro's vision is to be the leading sustainable energy company in North America. Our mission is to provide energy solutions to our customers in an environmentally and socially responsible manner. To support our commitment to sustainability, we balance, track and measure our performance along environmental, social and economic bottom lines.
- BC Hydro has constructed an integrated system of over 11 000 megawatts of generating capacity – over 87 per cent of which is based on renewable hydroelectricity. Between 43 000 and 54 000 gigawatt hours of electricity are generated annually, depending upon prevailing water levels. Electricity is delivered to customers mainly through an interconnected system of more than 74 000 kilometres of transmission and distribution lines. As of April 1, 2003, BC Hydro has a workforce of approximately 4500 people.
- In fiscal 2003 BC Hydro was divided into three Lines of Business (Generation, Transmission and Distribution), two competitive service organizations (Engineering, Field Services), and a number of subsidiaries, including Powerex Corp. and Powertech Labs. As announced in the province's Energy Plan, *Energy for our Future: A Plan for B.C.*, released in November 2002, the Transmission line of business will become a separate, publicly-owned corporation, British Columbia Transmission Corporation (BCTC) in fiscal 2004. BC Hydro will continue to own the assets. BCTC will be responsible for ensuring open and non-discriminatory access to the B.C. transmission system.
- On April 1, 2003 a number of back-office functions, representing approximately 1600 employees, became the responsibility of BC Hydro's partner, Accenture Business Services of British Columbia (ABS), under a contractual agreement for services. These functions include Business Support Services, Customer Services, Human Resource Services, Building and Office Services, Payroll and Accounts Payable Services, Financial Systems Services, and Purchasing Services.
- BC Hydro is a Crown corporation owned by the provincial government. Its Board of Directors is appointed by the Lieutenant-Governor in Council and is responsible for the overall direction of the company. BC Hydro is regulated by the British Columbia Utilities Commission (the Commission) and they are both subject to directions issued by the order of the province.

FINANCIAL AND OPERATING STATISTICS

KEY FINANCIAL AND OPERATING COMPARATIVES

Millions of dollars unless otherwise stated	**2003**	2002	2001	2000	1999
Financial Comparatives					
Revenues	**$ 4, 407**	$ 6,311	$ 7,889	$ 3,480	$ 3,043
Net income	**$ 418**	$ 403	$ 446	$ 416	$ 395
Capital assets	**$ 9,793**	$ 9,510	$ 9,361	$ 9,320	$ 9,236
Net long-term debt	**$ 6,849**	$ 6,889	$ 6,214	$ 7,005	$ 7,491
Rate Stabilization Account	**$ 21**	$ 87	$ 232	$ 129	$ –
Retained earnings	**$ 1,609**	$ 1,529	$ 1,459	$ 1,385	$ 1,312
Capital and deferred expenditures	**$ 741**	$ 545	$ 413	$ 406	$ 392
Debt to equity	**72:28**	72:28	70:30	74:26	77:23
Return on equity (%)	**15.47**	15.24	16.59	16.69	17.43
Interest coverage	**1.75**	1.43	2.48	1.89	1.60
Operating Comparatives					
Number of customers	**1 629 186**	1 609 871	1 595 287	1 579 658	1 558 294
Generating capacity (MW):					
Hydroelectric	**10 009**	10 009	10 009	10 000	9 960
Thermal	**1 094**	1 093	1 093	1 110	1 070
Peak one-hour demand (MW)	**8 481**	8 692	8 995	8 423	8 777
Average annual kW·h use per residential customer	**10 476**	10 695	10 344	10 507	10 201
Average number of customers per employee	**266**	265	275	284	285
Domestic sales (GW·h)	**48 677**	47 801	48 131	46 442	45 791
Electricity trade sales (GW·h)	**31 182**	20 666	23 900	23 410	18 715
Electricity sold per employee (GW·h)	**13.14**	11.32	12.48	12.63	11.89

FINANCIAL STATISTICS

for the years ended or as at March 31 (millions of dollars)

	2003	2002	2001	2000	1999
Revenues	**$ 4,407**	$ 6,311	$ 7,889	$ 3,480	$ 3,043
Expenses					
Energy costs	**2,426**	4,407	5,162	1,334	1,058
Operations, maintenance and administration	**573**	550	755	475	443
Depreciation and amortization	**417**	386	380	375	347
Taxes	**145**	166	174	172	173
Finance charges	**457**	544	559	579	615
	4,018	6,053	7,030	2,935	2,636
Income Before Customer Profit Sharing, Employee Transition Option Costs, Restructuring Costs and Rate Stabilization Account Transfers	**389**	258	859	545	407
Customer profit sharing	–	–	310	–	–
Employee transition option costs	–	–	–	–	12
Restructuring costs	**37**	–	–	–	–
Rate Stabilization Account transfers	**(66)**	(145)	103	129	–
Net income	**$ 418**	$ 403	$ 446	$ 416	$ 395
Capital assets					
At cost	**$15,609**	$15,067	$14,617	$14,302	$13,925
Less: Accumulated depreciation	**5,816**	5,557	5,256	4,982	4,689
Net Book Value	**$ 9,793**	$ 9,510	$ 9,361	$ 9,320	$ 9,236
Capital asset expenditures					
Sustaining	**$ 367**	$ 333	$ 270	$ 265	$ 242
Expansion	**329**	198	142	138	145
Total capital asset expenditures	**$ 696**	$ 531	$ 412	$ 403	$ 387
Demand-side management (DSM) programs	**45**	14	1	3	5
Total capital asset and DSM program expenditures	**$ 741**	$ 545	$ 413	$ 406	$ 392
Less: Contributions in aid of construction	**62**	54	44	41	39
Net Capital Asset Expenditures	**$ 679**	$ 491	$ 369	$ 365	$ 353
Net Long-Term Debt[1]	**$ 6,849**	$ 6,889	$ 6,214	$ 7,005	$ 7,491

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[1] Consists of long-term debt net of sinking funds including current portion less temporary investments.

OPERATING STATISTICS

for the years ended or as at March 31	**2003**	2002	2001	2000	1999
Generating capacity (megawatts)					
Hydroelectric[1]	**10 009**	10 009	10 009	10 000	9 960
Thermal	**1 094**	1 093	1 093	1 110	1 070
Total	**11 103**	11 102	11 102	11 110	11 030
Peak one-hour demand integrated system (megawatts)	**8 481**	8 692	8 995	8 423	8 777
Customers					
Residential	**1 442 597**	1 424 505	1 411 333	1 397 926	1 379 310
Light industrial and commercial	**183 188**	182 025	180 607	178 454	175 772
Large industrial	**133**	132	131	126	97
Other	**3 092**	3 064	3 042	3 032	3 011
Electricity trade	**176**	145	174	120	104
Total	**1 629 186**	1 609 871	1 595 287	1 579 658	1 558 294
Electricity sold (gigawatt hours)					
Residential	**15 024**	15 170	14 537	14 599	13 987
Light industrial and commercial	**16 757**	16 446	16 292	15 960	15 776
Large industrial	**15 179**	14 513	15 573	14 644	14 705
Other	**1 717**	1 672	1 729	1 239	1 323
Domestic	**48 677**	47 801	48 131	46 442	45 791
Electricity trade	**31 182**	20 666	23 900	23 410	18 715
Total	**79 859**	68 467	72 031	69 852	64 506
Domestic change over previous year (%)	**1.8**	(0.7)	3.6	1.4	5.8
Revenues (millions)					
Residential	**$ 923**	$ 930	$ 892	$ 894	$ 855
Light industrial and commercial	**893**	874	866	849	838
Large industrial	**516**	482	524	482	488
Other energy sales	**88**	89	90	73	77
Domestic electric	**2,420**	2,375	2,372	2,298	2,258
Miscellaneous	**55**	75	59	53	46
Domestic	**2,475**	2,450	2,431	2,351	2,304
Electricity trade	**1,932**	3,861	5,458	1,129	739
Total	**$ 4,407**	$ 6,311	$ 7,889	$ 3,480	$ 3,043
Average revenue (per kilowatt hour)					
Residential	**6.1¢**	6.1¢	6.1¢	6.1¢	6.1¢
Light industrial and commercial	**5.3**	5.3	5.3	5.3	5.3
Large industrial	**3.4**	3.3	3.4	3.3	3.3
Other	**5.1**	5.3	5.2	5.9	5.8
Electricity trade	**6.2**	18.7	22.8	4.8	3.9
Average annual kilowatt hour use per residential customer	**10 476**	10 695	10 344	10 507	10 201
Lines in service					
Distribution (kilometres)	**56 437**	54 451	53 568	53 158	52 727
Transmission (circuit kilometres)	**18 284**	18 025	18 025	17 822	17 815
Number of employees[2]	**6 013**	6 144	5 952	5 587	5 476

[1] Maximum sustained generating capacity.

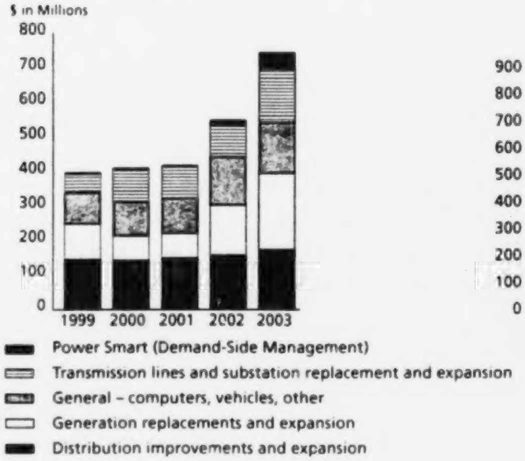
[2] Includes full-time and part-time employees. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia.

TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

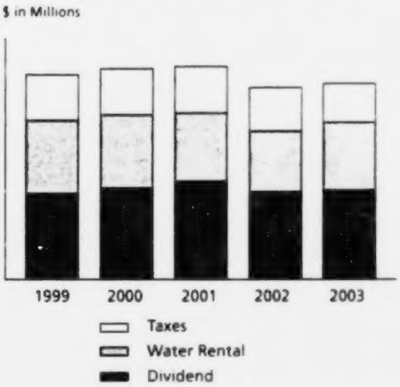
for the years ended or as at March 31		2003		2002		2001	
	GENERATING CAPACITY (MEGAWATTS)	**GIGAWATT HOURS**	**%**	GIGAWATT HOURS	%	GIGAWATT HOURS	%
Requirements							
Domestic	11 103	48 677	57.6	47 801	65.0	48 131	62.3
Electricity trade		31 182	36.9	20 666	28.1	23 900	31.0
		79 859	94.5	68 467	93.1	72 031	93.3
Line loss and system use		4 689	5.5	5 033	6.9	5 200	6.7
		84 548	100.0	73 500	100.0	77 231	100.0
Sources of supply							
Hydroelectric generation							
Gordon M. Shrum	2 730	16 061	19.0	13 624	18.6	14 176	18.4
Revelstoke	1 980	8 094	9.6	6 943	9.5	8 612	11.1
Mica	1 805	6 926	8.2	5 757	7.8	7 657	9.9
Kootenay Canal	580	2 868	3.4	2 141	2.9	2 753	3.6
Peace Canyon	694	3 991	4.7	3 318	4.5	3 525	4.6
Seven Mile	594	2 919	3.4	2 216	3.0	2 627	3.4
Bridge River	466	2 366	2.8	2 000	2.7	2 203	2.8
Other	1 160	4 440	5.3	4 486	6.1	3 894	5.0
	10 009	47 665	56.4	40 485	55.1	45 447	58.8
Thermal generation							
Burrard	912	110	0.1	2 731	3.7	3 974	5.2
Other	182	300	0.4	447	0.6	464	0.6
Purchases under long-term commitments		7 518	8.9	7 512	10.2	6 304	8.2
Purchases under short-term commitments		30 560	36.1	22 608	30.8	21 655	28.0
Exchange net		(1 605)	(1.9)	(283)	(0.4)	(613)	(0.8)
	11 103	84 548	100.0	73 500	100.0	77 231	100.0

FINANCIAL HIGHLIGHTS

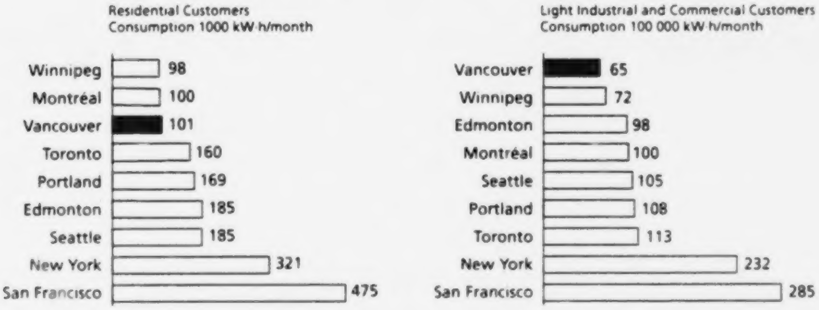
Capital Expenditures



Payments to the Province



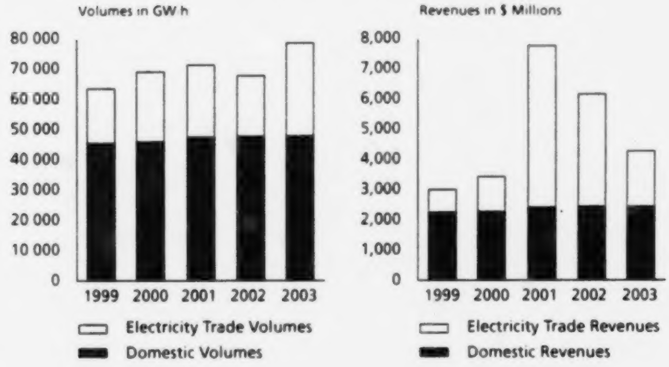
Comparative Index of Electricity Prices


Residential Customers
Consumption 1000 kW·h/month

Light Industrial and Commercial Customers
Consumption 100 000 kW·h/month

Monthly billings (excluding all taxes)
Rate in effect May 1, 2002
Source: Hydro-Québec: Comparison of Electricity Prices in Major North American Cities

Domestic and Electricity Trade Sales


Volumes in GW·h

Revenues in $ Millions

YEAR IN REVIEW – A TRIPLE BOTTOM LINE PERSPECTIVE

Consistent with the integration of our Annual and Triple Bottom Line reports, this year's highlights will be reported on from a Triple Bottom Line perspective. Two additional categories – Operations and Resource Acquisition – are also included to reflect key areas of our business that do not easily fall under one of these three categories.

Financial Highlights

- Net income of $418 million for the year was $15 million higher than for the same period in the previous year. Before the transfer from the Rate Stabilization Account (RSA), net income of $352 million was $94 million higher than the prior year.
- The transfer from the RSA was $66 million in 2003, compared with a transfer from the RSA of $145 million in the previous year. The balance in the RSA account at the end of fiscal 2003 totalled $21 million.
- Revenues of $4,407 million were $1,904 million lower than the prior year. This decrease was due to lower electricity trade revenues earned this year as a result of the decline in market prices to more traditional levels since June 2001.
- Expenses of $3,561 million decreased by $1,948 million from the same period in the prior year. Lower energy costs, due mainly to lower market prices for energy purchases and to a decrease in energy purchases required to meet domestic demand due to improved water inflows, accounted for the majority of the total decrease in expenses. Finance charges totalling $457 million declined by approximately 16 per cent from the previous year primarily due to lower interest rates and to the positive impact of the strengthening Canadian dollar.
- The net income projection for fiscal 2004 is $80 million before RSA transfer, an increase of $150 million from the projection disclosed in BC Hydro's February 2003 Service Plan. The increase in the projected net income is primarily due to the impact of significantly improved water inflows during the spring.
- Powerex trade activities generated sales revenues of approximately $2 billion for the sale of over 31 000 gigawatt hours of electricity.

Operations Highlights

- Domestic sales of electricity (to customers within the province) totalled 48 677 GW·h for the year, an increase of 1.8 per cent.
- BC Hydro's integrated system load to domestic customers reached a one-hour peak of 8481 MW on December 18, 2002. This compares with the fiscal 2001/2002 peak demand of 8692 MW, which occurred on December 4, 2001.
- Electricity and gas prices were moderate in the first half of the fiscal year. In the second half of the year, there was an upward trend in prices and declining gas storage inventories, due to high levels of space heating demand.
- Precipitation throughout most basins in the BC Hydro system during fall and winter 2002/2003 was well below normal. This contributed to below-average snowpacks in most areas of the province. The situation improved in March, due to significantly higher-than-average precipitation. The overall system runoff forecast is estimated at 94 per cent of normal.
- System storage energy on March 31, 2003 was about four per cent more than the same date last year, but about 1840 GW·h below the historical average for this time of year. As a result, energy purchases will be needed over the next year to offset the below-average inflow forecast.
- Weather-related events interrupted the transmission supply to Vancouver Island three times during fiscal 2003, with as many as 150,000 customers being impacted at times. The most serious of these events occurred on December 12, 2002 when a mudslide pulled down several structures, resulting in extensive damage to a 500 kilovolt (kV) line. A major repair effort was launched, but the line was not restored until mid-January due to the difficult terrain. The cost of this repair effort was approximately $2.9 million.

- A 230 kV transmission line – cable 2L64 – in the Lower Mainland transmission system failed in July 2002, forcing South Vancouver and Point Grey customers connected to Sperling and Camosun substations to be supplied from a single circuit. Repairs to 2L64 were successfully completed in November at a total cost of $800,000.
- BC Hydro received BCUC approval to install a new underground 230 kV cable circuit (2L33) between Horne Payne and Cathedral Square substations. The $44 million project will be completed in May 2004 and will help secure reliable supply to downtown Vancouver.

Resource Acquisition Highlights

- The Power Smart demand-side management program met its goal for the year, with implemented savings for fiscal 2003 totalling 388 GW·h.
- During fiscal 2003, 158 GW·h of new and restored energy was brought into service through the implementation of three Resource Smart projects.
- BC Hydro is seeking 10- to 20-year agreements to supply new, competitively priced electricity from Customer-Based Generation (CBG). In response to the 2002 Call for Tenders, five projects were accepted, representing a total of about 500 GW·h/year of generation.
- From the 2001 Green Power Generation call BC Hydro has 22 signed Energy Purchase Agreements totalling 930 GW·h. These IPP projects are in various stages of implementation. The Green call in October 2002 resulted in 30 pre-qualified projects, representing a combined proposed capacity of 700 MW, leading to a combined annual output of approximately 3300 GW·h per year.
- The U.S. federal regulatory approval process was completed for the U.S. portion of the Georgia Strait Crossing Project. The Canadian federal process continues with the National Energy Board. The in-service date of the project has been rescheduled from October 2004 to October 2005 to accommodate the anticipated Canadian regulatory process timeline.
- Work continued on regulatory requirements for the Vancouver Island Generation Project, a new, high-efficiency natural gas-fired electricity generation facility to be built at Duke Point. The provincial Environmental Assessment process was completed (a decision is pending) and an application was filed with the B.C. Utilities Commission for a Certificate of Public Convenience and Necessity. The in-service date is currently scheduled for July 2006 and will be finally determined following all regulatory approvals.

Environmental Highlights

- BC Hydro's pilot project, to market a premium green power product, has resulted in sales of 32 155 Green Power Certificates for periods extending until December 31, 2006. A second phase is now underway, with promotion continuing to March 31, 2004.
- BC Hydro has exited the Vancouver Island Green Energy Demonstration Wind Project. This was based on the submission of three commercial wind energy project proposals to BC Hydro's current Green Power Generation acquisition call, which indicates that the private sector is advancing wind energy development in B.C. We continue to support wind monitoring through our 15 wind monitoring stations at nine locations and have spent $1.29 million to date on this activity.
- BC Hydro also exited its Memoranda of Understanding with two ocean wave developers to jointly develop two small-scale wave energy projects on Vancouver Island. BC Hydro will continue wave monitoring at the Ucluelet location and make the data publicly available. We also continue to monitor and measure the progress of wave energy technology and installations worldwide.
- As of the end of the fiscal year, about half of the Water Use Plan program was completed. This includes objectives and measures on 19 of the 22 Plans, and completed Research, Consultation and Trade-Offs on 12 of the 22 Plans.

- BC Hydro performed better than target on its Regulatory Compliance corporate performance measure, with only six actual incidents (compared with the historical target estimate of 15 incidents). Regulatory Compliance is an "outcome" measure of environmental performance that is used to indicate how well we are managing priority environmental issues and operating in an environmentally responsible manner.
- With respect to greenhouse gas emissions and climate change, BC Hydro is pursuing key initiatives to minimize our impacts – Power Smart, Resource Smart, and cleaner energy (from private producers). These initiatives have avoided an estimated 23 million tonnes of GHG emissions for f2002 and a further 30 million tonnes of avoided emissions by 2010.

Social Highlights

- Average System Availability Index (ASAI), the percentage of time power is available to customers, is measured on a rolling 12-month basis. In fiscal 2003 ASAI was on target with a result of 99.958 per cent.
- Customer Average Interruption Duration Index (CAIDI), the average number of hours per interruption, is also measured on a rolling 12-month basis. At 2.59 hours, CAIDI was worse than target (2.15 hours) mainly due to six major weather events.
- Customer satisfaction measured 93 per cent, much higher than the target of 84 per cent, largely due to the extremely high level of satisfaction expressed by Tier 1 customers (those with electricity purchases in excess of $200,000/year).
- BC Hydro ended the fiscal year with a first quartile Customer Care service level (customer satisfaction with call centre service) of 82 per cent.
- On April 1, 2003 the Shared Services functions within BC Hydro – which include Customer Services, Information Technology, Financial Systems and Disbursement Services, Building and Office Services, Supply Chain, and Human Resources – were outsourced to Accenture Business Services under a contract for services. Contractual guarantees are in place for cost savings of at least $250 million over 10 years and first-quartile service by the end of the third year.
- A strategic workforce planning initiative (SWfP) has been underway since fiscal 2001 to mitigate the impact of retirements and renew critical workforce capability. There was 100 per cent completion of 68 planned SWfP hires in fiscal 2003, bringing the total portfolio of positions to 226 and the investment to date to $19 million.
- A 30.5 per cent improvement in BC Hydro's corporate safety measure – All Injury Frequency – was achieved in fiscal 2003. BC Hydro is now in the first quartile relative to its peers in the Canadian Electricity Association.

GOALS, OBJECTIVES AND KEY STRATEGIES

BC Hydro's vision centres on the concept of sustainability. Sustainability is about focusing on financial, environmental and social value to address the challenges and opportunities BC Hydro faces.

BC Hydro continues to focus on its strengths in financial performance, service quality, environmental management and employees. BC Hydro's goal is to be a first-quartile performer in each of these areas. Financial Performance means targeting first-quartile costs when compared with similar utilities. Service Performance means focusing on customer satisfaction and reliability. Environmental Performance means continuing to manage priority environmental and social issues. Employee Performance means ensuring safety and providing incentives to achieve corporate and personal development goals.

Financial Performance

- BC Hydro's profits are greatly influenced by such uncontrollable factors as precipitation and market prices for electricity. Therefore, to help face the challenge of earning its allowed rate of return, BC Hydro continues to focus on what it can control including cost, optimizing the productivity of its assets, and export and trading opportunities. Additionally, BC Hydro continues with its plans to capitalize on competitive services and alternative delivery opportunities.

Quality of Service

- BC Hydro's service objective is to be a top-quartile performer in terms of customer satisfaction and service reliability. This objective will be accomplished by optimizing the utilization and health of Hydro's physical assets including dams, generating stations, transmission and distribution systems, and information technology. BC Hydro also continues to ensure it has public support by maintaining the high reliability of its power system and providing service excellence. BC Hydro's outsourcing agreement with Accenture to provide non-core services includes service agreements that ensure BC Hydro will maintain the same high quality of service.

Environment

- BC Hydro's environmental objective is to be a top-quartile performer in terms of sustainability by continuing to manage priority environmental and social issues. This objective will be accomplished by operating in an environmentally and socially responsible manner. BC Hydro is changing its future resource mix to focus on cost-effective Power Smart, customer co-generation and self-generation and green and alternative energy.

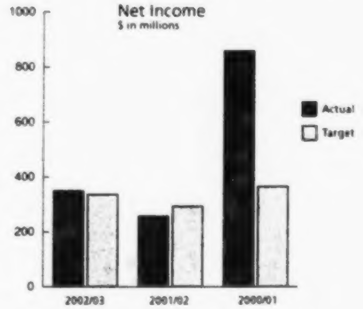
Employees

- BC Hydro's objective regarding employees is to reinforce the importance of safety and pride in service. BC Hydro has a Strategic Workforce Planning initiative underway to ensure it maintains a skilled workforce in the face of pending retirements. Since the initiative began, 224 Strategic Workforce positions have been filled.

FINANCIAL PERFORMANCE

Net Income before RSA transfers (in Millions) ●

	Actual	Target
02/03	$ 352	$ 350
01/02	258	$ 300
00/01	859	$ 366



Net Income before RSA transfers is an outcome measure of financial performance. Its purpose is to indicate how well BC Hydro is increasing shareholder value by managing the profit side of the economic bottom line. Net Income is defined as total revenue less total expenses.

BC Hydro achieved its Net Income target despite a number of one-time and unexpected non-controllable costs. Higher large industrial revenues due to an increase in production in the pulp and paper, chemical and mining sectors due to improving commodity prices, higher light industrial and commercial revenues, due to an increase in consumption, and lower finance charges were offset by higher operations, maintenance and administration expenses, higher depreciation expenses, and one-time restructuring costs related to the outsourcing of non-core services to Accenture Business Services of BC. The one-time costs related to Accenture are expected to be more than recovered through future cost savings.

Total OMA Cost (in Millions) ▼

	02/03		01/02		00/01	
	Actual	Target	Actual	Target	Actual	Target
Operations, Administration	**$302**	$266				
Maintenance (OMA)	**271**	254				
Total	**$573**	$520	**$550**	$532	**$755**	$473

Total OMA Cost is a measure of financial performance. Its purpose is to indicate how well BC Hydro is increasing shareholder value by managing the cost side of the economic bottom line. Total OMA cost is defined as the total of operations, maintenance and administration expenditures.

Total OMA Cost was worse than target primarily due to a number of non-controllable costs. These costs include: an increase in legal and other associated costs related to a number of lawsuits, investigations, and regulatory proceedings arising from claims related to the electricity wholesale market in California in 2000 and 2001; an increase in pension costs as a result of the recent actuarial valuation; and an increase in distribution system restoration costs (trouble calls) as a result of several severe windstorms.

Cost per Customer Transaction ▼

Consolidated	Actual	Target	Domestic	Actual	Target
02/03	**$ 51.0**	$ 48.6	02/03	**$ 44.9**	$ 45.9
01/02	**$ 88.4**	$153.6	*no data*	*no data*	*no data*
00/01	**$ 97.6**	$ 46.3	*no data*	*no data*	*no data*

Cost per Customer Transaction is an outcome measure of financial performance. Its purpose is to indicate how proficiently BC Hydro is increasing operating efficiencies and productivity relative to the level of service it provides. Cost per Customer Transaction is defined as total cost divided by total sales volume (megawatt hours sold). The definition of this measure in BC Hydro's Service Plan was based on consolidated numbers. Consolidated Cost per Customer Transaction includes costs and volumes related to electricity trade. The significant drop in the market price of electricity accounts for most of the difference between this year's and last year's results.

Cost Per Customer Transaction was worse than target because of the increase in OMA costs (as explained in the Total OMA Cost section). Domestic Cost per Customer Transaction does not include electricity trade. With energy trade transactions taken out of the domestic calculation, total domestic costs were on target whereas domestic sales volume was greater than target. The combination of these factors led to domestic Cost per Customer Transaction coming in better than target.

Total labour and benefit expense

($M)	2003	2002	2001	2000
Total labour expense	**567**	517	460	413
Total benefit expense	**142**	129	110	100

The increase in fiscal 2003 labour costs was primarily a result of increased pension and post-retirement costs due to actuarial valuation and experience losses on pension plan assets. Wage and salary increases were also a factor, but these increases were offset by a three per cent staffing reduction.

Total spending with significant indirect economic impacts

($'000s)	2003	2002	2001	2000
Providing public drinking water	**400.0**	871.6	*no data*	*no data*
Maintaining recreational and heritage sites	**1,980.4**	4,239.8	*no data*	*no data*
Maintaining roads and trail building/maintenance	**155.7**	367.1	*no data*	*no data*
Strategic Research & Development	**3,400.0**	3,700.0	3,800.0	4,100.0
Totals	**5,936.1**	9,178.5		

Some historic data was unavailable. Spending shown is the sum of capital and operation, maintenance, and overhead funds and does not include external funding leveraged as a result of initial investment by BC Hydro, as we could not verify its accuracy. Drinking water costs are declining as systems are divested to local communities. R&D includes the hydrogen program, and projects for improving power quality and reliability and for finding new ways to monitor and extend asset life. Next year's R&D budget is expected to be $3.3M.

Corporate/regional donations

	2003	2002	2001
Amount Allocated ($'000s)	**1,000**	1,150	3,000
Percentage Allocation			
Arts and culture	3	9	22
Education	0	4	20
Environment	8	12	9
United Way	21	26	9
Aboriginal	12	5	13
Regional	27	24	10
Scholarships	16	12	11
Hydro Employees Community Services Fund (HYDRECS)	11	8	3
Community Investment	3	0	3

In fiscal 2003 BC Hydro focused funding on initiatives that best complement its business objectives. The reduced funding for fiscal 2003 reflects the fewer number of requests that met these objectives. Our Education donations have been redirected to Scholarships, as reflected by the 33 per cent increase in value over last year.

QUALITY OF SERVICE

Reliability ▼

ASAI	Actual	Target	*CAIDI*	Actual	Target
02/03	**99.958%**	**99.970%**	**02/03**	**2.59 hrs.**	**2.15 hrs.**
01/02	99.959%	99.973%	01/02	2.57hrs.	2.15 hrs.
00/01	99.972%	99.972%	00/01	2.12 hrs.	1.83 hrs.

Reliability is an outcome measure of service quality. Its purpose is to indicate how well BC Hydro is focusing on system dependability. This measure's result demonstrates how dependable BC Hydro's service has been. Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). ASAI is the percentage of time power is available. CAIDI is the average number of hours per interruption. These indices are electric utility industry standards and are used by the Canadian Electricity Association (CEA) in their annual comparison of electric utilities. The indices are calculated on a 12-month rolling average basis. For the current results, this period was April 1, 2002 to March 31, 2003.

CAIDI was worse than target mainly due to six major weather events. On April 14, 2002 a windstorm hit the Lower Mainland and parts of Vancouver Island, which accounted for 4.9 per cent of the total customer-hours lost during this period. On December 15, 2002 another windstorm struck the Lower Mainland and Vancouver Island and accounted for 6.9 per cent of the total customer-hours lost during this period. On December 25–26, 2002 another windstorm knocked down trees and power lines in the Lower Mainland, cutting electricity to parts of the area for much of Christmas Day. The two-day storm accounted for 4.0 per cent of the total customer-hours lost during this period. On January 2–3, 2003 another windstorm caused widespread power outage to thousands of customers in the Lower Mainland and South Vancouver Island for several hours. The two-day storm accounted for 8.9 per cent of the total customer-hours lost during this period. On the morning of March 13, 2003 a powerful windstorm blew in from the Pacific, causing numerous outages all across B.C. The storm accounted for 2.6 per cent of the total customer-hours lost during this period. Finally, on March 22, 2003 a severe storm with high winds, heavy snowfall and lightning rolled across the path of 5L30 and 5L32 circuits feeding Vancouver Island. The source outage accounted for 3.1 per cent of the total customer-hours lost during this period.

The number and magnitude of these storms over the last two years was greater than historically experienced and expected.

ASAI, also measured on a rolling 12-month basis, was on target. This means that over the 12-month period, the system was unavailable for just about 3.5 hours.

Customer Satisfaction ▲

	Actual	Target
02/03	93%	84%

Customer Satisfaction is an outcome measure of service quality. Its purpose is to indicate how well BC Hydro is focusing on customer expectations in delivering service excellence.

Since the Service Plan was published last February, BC Hydro's methodology for measuring customer satisfaction has changed. Originally based on a single survey, performed on three customer segments and reported quarterly, Customer Satisfaction is now a composite indicator. Thirty per cent of the measure comes from a survey using all customers as the population from which to draw a random sample. The other 70 per cent comes from transactional surveys using only customers who have had a service interaction with BC Hydro as the population from which to draw a sample. Satisfied customers are those who indicate they are either "satisfied" or "very satisfied".

Customer Satisfaction came in much higher than anticipated, largely due to the extremely high level of satisfaction expressed by Tier 1 customers (with electricity purchases > $200,000/year) not only in the overall survey (99 per cent satisfaction) but also in transactional surveys (97 per cent). The primary reason for this high level of satisfaction is that the Tier 1 Customer Account Managers have been working closely with these customers to implement Power Smart programs that will ultimately generate significant savings for these customers. Power Smart programs have also been implemented with smaller customers. Overall, no group was less than 84 per cent satisfied.

Replacement Capital Ratio ●

	Actual	Target
02/03	1%	1–2%

Replacement Capital Ratio is a predictive measure of service performance. Its purpose is to indicate BC Hydro's future ability to maintain high system reliability by ensuring business-sustaining investment to maintain the health of its assets. Replacement Capital Ratio is defined as sustaining capital expenditures as a percentage of the replacement value of capital assets.

The Replacement Capital Ratio came in at the lower end of the target range. BC Hydro increased its sustaining capital spending in 2002/03 to help ensure the health of its aging assets is maintained.

Incremental Conservation Gigawatt Hours ●

	Actual	Target
02/03	388 GW•h	360 GW•h

Incremental Conservation Gigawatt Hours is an output measure of cost effective energy acquisition. Its purpose is to indicate how well BC hydro is managing demand for energy through Power Smart programs. Conservation Gigawatt Hours is defined as gigawatt hours saved as a result of economic demand side management.

Incremental Conservation Gigawatt Hours was on target as a result of the success of the compact fluorescent light bulb program on Vancouver Island and Power Smart's success in advancing a number of business projects. These projects included: Power Smart Partner, e.Points, Customer Based Generation, Revolving Fund, Sector Specific Programs, Product Based Programs, Trade Alliances, Legislation, and Regulations & Standards. The actual results include incremental savings from programs initiated in prior years. The results are based on preliminary estimates which will be subject to measurement and verification, and program evaluation.

ENVIRONMENT

Regulatory Compliance ▲

	Actual	Target
02/03	**6 incidents**	15 incidents

Regulatory Compliance is an outcome measure of environmental performance. Its purpose is to indicate how well BC Hydro is managing priority environmental issues and operating in an environmentally responsible manner. Regulatory Compliance is the quarterly average number of externally reportable, preventable environmental incidents. This measure is the most visible indicator of environmental compliance to external stakeholders, including the public and regulators.

The target was based on an initial estimate of historical data. Since the measure and target were set, the definition of "preventable" has been further refined. This refinement may result in a lower number of incidents per quarter. This measure is an experiential measure in that it is a new measure for BC Hydro and it is intended to provide organizational focus on reducing preventable incidents. There were no incidents that were categorized as severe.

Incremental Green Gigawatt Hours ▼

	Actual	Target
02/03	**0 GW•h**	350 GW•h

Incremental Green Gigawatt Hours is an output measure of environmental performance. Its purpose is to indicate how well BC Hydro is managing priority environmental issues by diversifying its future resource mix to focus on green energy. Incremental Green Gigawatt Hours are defined as additional (not currently in BC Hydro's power system) contracted gigawatt hours from green sources that meet purchase price limits.

Changes to BC Hydro's Green Power acquisition process were implemented during the year. The main change was the alignment of the Green Power acquisition to the Customer-Based Generation acquisition process to ensure consistency and transparent commercial terms in both calls for energy supply. This change will result in a delay in achieving our 2002/03 target until the second quarter of 2003/04.

A 2002/03 Green Power Generation (GPG) procurement process was initiated and the first stage in the process, the 2002/03 GPG Request for Qualifications, was completed. BC Hydro received 70 green power project submissions from Independent Power Producers in response. BC Hydro has pre-qualified 30 of the original 70 proposals as the next step in securing additional new green electricity through its GPG procurement process. Pre-qualified projects are predominately small hydroelectric, but woodwaste, biogas and a wind proposal were also pre-qualified. BC Hydro will now, as a next stage, issue a 2002/03 GPG Call for Tenders document to the pre-qualified bidders.

Spills (Oil and Petroleum)

	2003	2002	2001	2000	1999
Number of legally reportable incidents	**35**	34	34	36	37
Total volume (L)	**3 206**	7 675	11 714	13 150	5 323

Reportable petroleum spills are any volume over 100 litres spilled to land or any amount spilled to water. Threshold reporting volumes for other substances vary from one litre or kilogram to 200 litres or kilograms, depending on the substance. We use this measure to assess the frequency and severity of environmental incidents and as a proxy for the overall adequacy of systems and practices relating to compliance.

Discharges to water, calendar year

	2002	2001	2000	1999	1998
Sulphate (T)	13	19	17	9	16
Sewage ('000's m^3)	104.3	124.4	127.2	130.3	121.5

Burrard generating station chlorinates its marine-sourced cooling water to reduce biofouling of the cooling system. Chlorination only occurs when mussel larva are likely to present, typically from late May through mid December. Before the water is discharged, it is treated with sulphur dioxide at the rate of 20–50 micrograms per litre to remove the residual chlorine which can be harmful to aquatic life. The treated discharge contains primarily sulphate and chloride as the products of the dechlorination reaction. Because the sulphate concentration in Burrard Inlet is approximately 3 per cent by weight, this discharge does not change the local concentration detectably.

Sewage is the estimated total volume of sanitary effluent generated from all BC Hydro buildings and offices, excluding generating stations and Surrey Oil Operations.

First Nations Engaged in BC Hydro Impact Avoidance Management Processes

First Nations were involved in several impact avoidance management processes in fiscal 2003. An example is First Nations' participation in the Water Use Planning process, which explores options to reduce impacts or create benefits relating to BC Hydro's facility operations. Another example is the consultation process on the decommissioning of the Coursier Lake Dam.

Public Accidents Involving BC Hydro Facilities

	2003	2002	2001	2000	1999	1998
No. of incidents	**1089**	965	976	1046	1278	1284
No. of public fatalities, actual	**0**	1	1	1	1	5
No. of public fatalities, target	**0**	0	0	0	0	0

This indicator includes any public incidents that involve our system, including vehicle accidents that cause damage to our poles, lines or other infrastructure. While we have no control over public accidents, we increase spending on public awareness programs if the number of incidents or fatalities increases. Our target for 2004 remains at zero fatalities.

Safety Education and Training

Awareness of Electrical Safety Advertising

Males 18–35:	**2003**	2002	2001
No, not aware (%)	**57**	55	67
Yes, aware (%)	**43**	45	33

While we have safety programs and communications in place that benefit the general public, we understand the importance of also focusing on those most at risk – individuals employed in commercial and industrial occupations working closely with or near electricity. Through workplace and accident statistics, men between the ages of 18 to 35 in such occupations are the most prone to electrical accidents and thus the most in need of a better understanding of the necessary safety precautions. Results are based on a survey of this demographic group.

Public Opinion

Survey respondents with generally favourable opinion of BC Hydro.

	2003	2002	2001	2000	1999	1998
Actual (%)	**61**	66	59	63	65	56
Target (%)	**60**	55	60	60	60	58

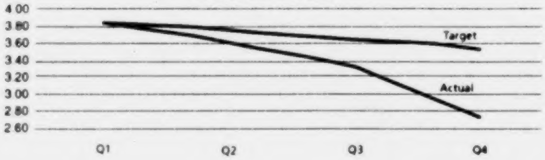
The purpose of the Public Opinion measure is to track the public's overall impression of BC Hydro to determine to what extent we have public consent to operate. The measure tracks the results of the survey question, "Would you say that your general attitude towards BC Hydro is very favourable, somewhat favourable, somewhat unfavourable, very unfavourable or are you indifferent towards them?" Poll results add the "very favourable" and "somewhat favourable" categories.

Having recovered from public misperception around increasing natural gas rates and the corporation's relationship with BC Gas, the f2003 Target was restored to 60 per cent. Actual f2003 results surpassed the Target, but registered lower than last year. This was likely due to the profile and public attention to the new provincial Energy Plan and the formation of Accenture Business Services of British Columbia.

EMPLOYEES

Improvement in All Injury Frequency ▲

	Actual	Target
02/03	**30.5%**	10.0%
01/02	13.0%	5.0%



2002/03 AIF Trend

Improvement in All Injury Frequency is an outcome employee measure. Its purpose is to indicate how well BC Hydro is reinforcing the importance of safety by guiding corporate mitigation strategies for managing and preventing all employee work-related injury. Improvement in All Injury Frequency is defined as the percentage reduction in the all injury incident frequency rate (occurrence of Medical Aid and Disabling Injuries). Medical Aid injuries are defined as those where a medical practitioner has rendered services beyond the level defined as "first aid" and the employee was not absent from work beyond time lost on the day of injury. Disabling injuries are defined as those that involve the employee being absent from work beyond the day of injury. The frequency calculation (# of injury incidents x 200,000 / hours worked) is based on injuries experienced at BC Hydro over the previous 12 months and relative to person-hours that have been worked over that same period.

The energy and commitment put into safety management has achieved the remarkable improvement in All Injury Frequency. BC Hydro is now in the first-quartile relative to its peers in the Canadian Electricity Association. All Lines of Business have contributed to the results, but the significant change that occurred in Field Services' safety performance was the dominant positive contribution.

Funding and Usage of Health Services and Promotion Programs:

Health services and program spending ($'000s)	2003	2002	2001	2000	1999
Return to work	**558.0**	712.5	629.6	630.9	504.2
Employee Family Assistance program	**597.2**	521.1	505.2	458.1	462.3
Respectful Workplace	**290.2**	298.3	254.0	132.0	143.2
Physiotherapy	**88.5**	86.6	61.5	63.0	63.1
Other Health Services	**4.3**	58.5	10.6	(16.1)	(8.4)
Total Health Program and Services	**1,538.2**	1,677.0	1,460.9	1,267.9	1,164.4

Health promotion spending ($'000s)	2003	2002	2001	2000	1999
Lifestyle program	**1,002.7**	1,160.0	1,128.7	1,090.2	794.5

Health promotion and screenings	2003	2002
No. of participants, Lifestyle incentive program	**2,287**	2,300
No. of participants, Lifestyle workshop	**3,301**	3,989
No. of 1:1 fitness or wellness consultations	**522**	659
No. of employee health consultations	**418**	no data
No. of employee health screenings	**684**	312

Health Services interventions	2003	2002
No. of employees return to work	**122**	93
No. of employees using the Employee and Family Assistance program	**832**	801
No. of physiotherapy treatments	**1,717**	1,726
No. of new Respectful Workplace cases	**25**	44

Return to work costs include the costs of medical diagnostics and interventions funded by BC Hydro. A one-on-one fitness and wellness consultation is the initial consultation a health promotion employee has with their client and generally lasts 30 to 60 minutes. A health consultation is any other consultation with a client, and usually lasts 15 to 30 minutes. Health consultations were not tracked in previous years. Employees returned to work include those assisted to stay at work and also includes employees assisted with alcohol and drug rehabilitation programs.

Number of Employees Who Have Completed Respectful Workplace Training

	Fiscal 2003			Fiscal 2002			Fiscal 2001		
	M&P	OPEIU	IBEW	M&P	OPEIU	IBEW	M&P	OPEIU	IBEW
Field Services	7	13	23	0	0	0	0	0	0
Engineering Services	0	0	0	2	1	0	0	0	0
Generation	0	0	0	0	0	0	252	227	243
Distribution	59	268	2	0	0	0	0	0	0

Some totals are estimated. As part of BC Hydro's commitment to providing a work environment where all employees are treated with respect and dignity, the Respectful Workplace Program (RWP) will continue to offer, upon request, Respectful Workplace Awareness sessions to employees and managers. The sessions are designed to:

- Foster respectful workplace behaviours through discussion of typical workplace scenarios employees may encounter;
- Ensure that employees are aware of the services available to them through the RWP and know how to access them;
- Outline procedures for resolving complaints both informally and formally;
- Ensure that managers understand BC Hydro's legal and ethical commitment to providing a respectful workplace; and
- Ensure that employees understand their responsibilities toward creating a respectful workplace.

Number of Workplace Complaints by Type

	2003	2002	2001	2000
Personal	**24**	32	41	27
Discrimination	**1**	3	3	5
Sexual	**0**	4	5	1
Other	**0**	5	16	15
Total cases	**25**	44	65	48

Resolution of Workplace Complaints

	2003	2002	2001	2000
Informal	**24**	42	63	48
Formal	**1**	2	2	0

Workplace complaints are handled in the following sequence and proceed to the next level only if resolution is not achieved:

Consulting - An employee consults with a Respectful Workplace Coordinator or Advisor and receives support and coaching.

Informally - A Respectful Workplace Advisor mediates or facilitates resolution between the parties.

Formally - A Review Officer conducts a formal investigation and reports findings to the Director of Human Resources and the appropriate Vice-President. Complaints are elevated to a formal process only when the severity of the issue warrants that BC Hydro respond accordingly.

The downward trend in cases reflects, at least in part, the success of the Respectful Workplace program where, through skills-based coaching and informal resolution processes, managers and employees learn new ways to address potential concerns in order to reduce the likelihood of future complaints. Despite this trend, the number of individuals involved per case has actually increased. This apparent paradox reflects a shift in the way in which disputes are approached, addressed and resolved. Complaints were often approached as an isolated case of interpersonal conflict; however, in recent years it is common to discover organizational structures and/or unhealthy workplace dynamics that sustain or underlie a conflict. The initiating conflict thus becomes the catalyst that allows Respectful Workplace advisors to assist a wider group of managers and employees outside of the original complaint to address these conflict-sustaining organizational structures and unhealthy workplace relationships, involving more individuals per case.

Grievance Trends Among Unionized Workforce

	2003	2002	2001	2000	1999	1998
IBEW grievances	**33**	28	33	49	30	32
OPEIU grievances	**59**	58	48	30	25	40
IBEW arbitrations	**1**	1	3	2	1	3
OPEIU arbitrations	**2**	3	3	3	2	3

IBEW: International Brotherhood of Electrical Workers; OPEIU: Office and Professional Employees International Union

Awards and Recognition for Social, Ethical and Environmental Performance

Received	Award/Recognition Citation/Category	From	Recipient	For
2002	Spirit of Vancouver Award	Vancouver Board of Trade	BC Hydro Power Smart	Leadership and support of the HSBC Power Smart Celebration of Lights Festival
	Roderick Haig-Brown Conservation Award	B.C. Wildlife Federation	East Kootenay Wildlife Association	BC Hydro-sponsored Rocky Mountain Bighorn Sheep Habitat and Population Assessment in the East Kootenay Trench project
	Dr. Louis Lemieux Conservation Award	B.C. Wildlife Federation	The Nelson and District Rod and Gun Club	BC Hydro-sponsored Sproule Creek Habitat Rehabilitation Project
	Certificate of Honour	B.C. Historical Federation	BC Hydro, Publisher of "Station Normal"	Publishing the history, "Station Normal: The Power of Stave Falls"
	Heritage Society of B.C. Award	Heritage Society of B.C.	Stave Falls Visitor Centre	Heritage conservation at the Stave Falls Visitor Centre
	Award of Excellence	B.C. Safety Council	Vancouver Trouble Centre	Injury-free performance
	Eterne Award	Tree Canada Foundation	BC Hydro	Outstanding commitment and contribution to the environment
	Award of Honour	B.C. Safety Council	Lower Mainland Central	Injury-free performance
	The Global Reporters 2002 Survey of Corporate Sustainability Reporting ranked BC Hydro as one of the top 50 international sustainability reporters	Sustainability/United Nations Environmental Program	BC Hydro	Sustainability reporting
2003	CBC Television Feature	CBC Television	BC Hydro Lifestyles Program	Implementing a wellness program in the workplace
	Top Ten Most Admired	Readers of the Shared Services	BC Hydro's Shared Services	For their approach to customer service
	B.C. residents rank BC Hydro as one of the top B.C companies	Ipsos-Reid Reputation Monitor Survey	BC Hydro	Corporate standing, according to public
	BC Hydro received an A+ for Environmental Commitment and Responsibility reporting	Canadian Electricity Association	BC Hydro	Environmental performance
	B.C. Section Illuminating Engineering Society (IES) Section Award and Regional Award of Merit	IES of North America	BC Hydro Power Smart	Lighting of the Power House at Stave Falls Visitor Centre
	Award and Regional Award of Merit	IDS of North America	BC Hydro Power Smart	Floodlight design of Vancouver City Hall

Number of Employees Eligible to Retire

	2003	2002	2001
Overall rate of attrition	**5.4%**	4.0%	4.6%
Overall attrition (number of employees-based on FTRs)	**290**	208	231
Percentage retired	**3.0%**	2.0%	2.3%
Number retired	**162**	106	113
Percentage resigned voluntarily	**1.2%**	0.6%	1.8%
Number resigned voluntarily	**63**	71	90
Percentage terminated for other reasons, were dismissed, or died	**1.2%**	0.6%	0.5%
Number terminated for other reasons, were dismissed, or died	**65**	31	26
New hires (numbers)	**120**	289	312
Number of base of employees eligible to retire	**679**	583	536
Retirement uptake (number)	**162**	106	113
Retirement uptake rate (percentage)	**23.9%**	18.2%	21.1%

BC Hydro's Workforce Profile Compared with B.C. Labour Force

	2003		2002		2001	
Demographic Profile (%)	**BC Hydro**	**B.C. Labour Force**	BC Hydro	B.C. Labour Force	BC Hydro	B.C. Labour Force
Under 20	**0**	6	0	7	0	7
20 - 34	**21**	31	22	33	19	32
35 - 44	**26**	27	26	28	26	28
45 - 54	**35**	24	36	22	37	23
55 - 59	**13**	7	11	6	13	6
60+	**5**	5	4	4	5	4

These results show that BC Hydro's workforce is older, the baby boom generation is more dominant, the retirement bulge will come earlier and the cumulative effect of retirement will be greater than for the general labour force in B.C.

Source: Public Affairs and Human Resources, and B.C. Stats for B.C. Labour Force information,

Diversity of Workforce

	2003			2002			2001		
Per cent	BC Hydro	B.C. Pop.	B.C. Total Workforce	BC Hydro	B.C. Pop.	B.C. Total Workforce	BC Hydro	B.C. Pop.	B.C. Total Workforce
Women	33	51	47	33	51	47	33	51	47
Visible Minorities	14	18	16	14	18	16	13	18	16
Aboriginal People	2	4	3	2	4	3	2	4	3
People with Disabilities	3	8	7	3	8	7	4	8	7

Representation of women, visible minorities and Aboriginal people has remained static largely due to low attrition and internal placements, rather than external hiring, during restructuring. Representation of people with disabilities continues to decline due to early retirement of disabled employees and lack of outreach recruitment efforts due to the limited scope for external hires during the fiscal year.

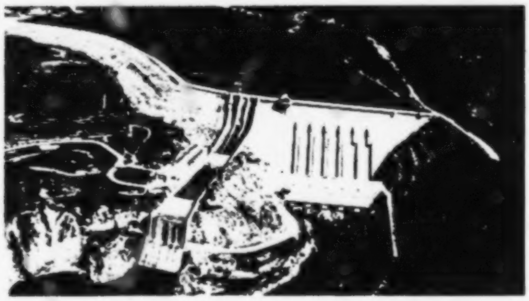
Strategic Workforce Planning

	2003	2002	2001
Positions filled, actual	**68**	75	83
Positions filled, target	**68**	79	88

Strategic Workforce Planning is the management process for anticipating, scoping, and planning the alignment of needed critical workforce capabilities to meet BC Hydro's strategic business goals. Thus, to remain competitive and to plan for future skills shortages and retirements, BC Hydro designates certain positions as strategic hires. Targets are set based on internally performed needs assessments.

PERFORMANCE BY LINES OF BUSINESS/SERVICE ORGANIZATIONS

GENERATION



Fiscal 2004 Estimates

Employees* (FTEs)	Capital Replacement Value ** ($ Millions)	Capital Expenditures ($ Millions)
695	$18,300	$188

*Excludes Aboriginal Relations

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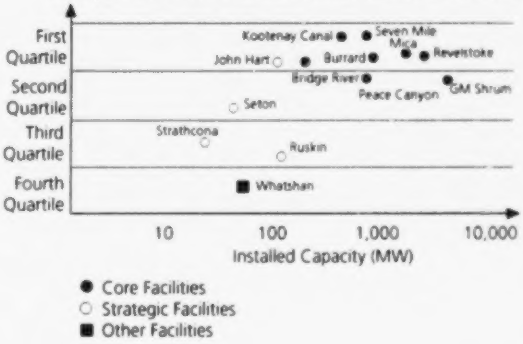
Overview

- The Generation Line of Business is responsible for the operation, maintenance and financial performance of BC Hydro's existing integrated electricity generation assets throughout British Columbia. This includes 42 dams, 79 units at 31 hydroelectric generation facilities and nine units at three thermal generation facilities.
- The Generation Team optimizes the value of these assets by managing inflows, storage, thermal resources, maintenance and investments to maximize profitability over the long-term while at the same time balancing environmental and social issues.
- Generation produces many products including Firm and Interruptible Energy, Capacity, Voltage Support, Spinning Reserve and Load Balancing and Automatic Generation Control.
- The primary focus of Generation is value creation. Commercial performance, which is a measure of actual revenue relative to possible revenue, is a key indicator of success.

Benchmarking

- Between 1999 and 2001, 92 per cent of Generation's installed capacity was benchmarked by Haddon Jackson Associates. These studies showed that BC Hydro's major generating stations are benchmarked in the first or second quartile of comparable facilities in North America in terms of cost and performance.
- However, the studies also showed that Generation was under-investing in its facilities. As a result, Generation began putting in place a new strategy for the maintenance, rehabilitation and replacement of equipment and is increasing investment in facilities. The driver for this change is optimal commercial availability – and therefore maximized net revenue – from all facilities over the long-term. An additional benefit is that, over time, Generation should be able to stabilize OMA costs.

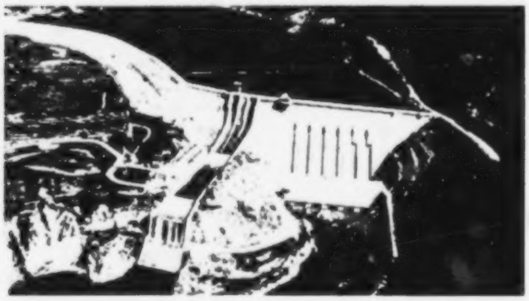
Composite Measure of Service Level and Cost



Burrard Generating Station in top quartile when operated at >30 per cent capacity.

PERFORMANCE BY LINES OF BUSINESS/SERVICE ORGANIZATIONS

GENERATION



Fiscal 2004 Estimates

Employees* (FTEs)	Capital Replacement Value ** ($ Millions)	Capital Expenditures ($ Millions)
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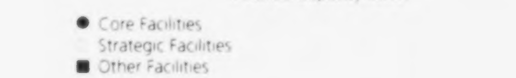


Burrard Generating Station in top quartile when operated at >30 per cent capacity

- To maintain and improve the condition of Generation's assets over the next 10 years, Generation will invest one per cent of replacement cost annually in its facilities. This is equivalent to approximately $180 million per year or approximately 170 per cent of fiscal 2003 depreciation. This will ensure that 10 years from now, despite being 10 years older, Generation assets will be in as good or better condition than they are today.
- This year, Generation participated in performance and cost data benchmarking with 10 other Hydro utilities across North America through the Electric Utility Cost Group Hydro Productivity Committee, a volunteer utility group that shares a variety of performance and cost data on an annual basis. Generation facilities with installed capacity of greater than 50 MW continue to lead participating utilities in most performance and cost categories.
- Next year, Generation will again participate in the Haddon Jackson Associates benchmarking program. Wahleach and GM Shrum generating stations will be benchmarked. GM Shrum was first benchmarked in 1999 and this will provide an opportunity to assess how the facility cost and performance have improved in the intervening years.

System Operation

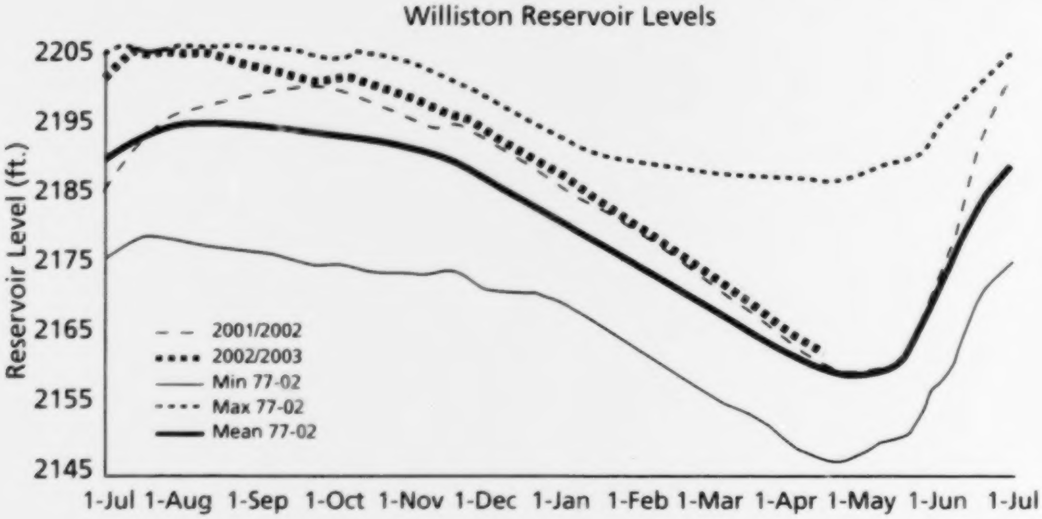
- BC Hydro monitors the levels at its hydroelectric reservoirs to ensure the most efficient use of stored water to meet domestic loads and to maximize value creation through electricity trade. Reservoir levels at any time are a function of inflows (caused by snowmelt and/or rainfall runoff) and electricity demand (as water in the reservoirs is discharged through turbines to produce electricity).
- Precipitation throughout most basins in the BC Hydro system during fall 2002 and winter 2002/03 was well below normal. This contributed to below-average snowpacks in most areas of the province. However, this situation improved substantially during the month of March due to significantly higher than average precipitation. Runoff forecasts for the period February 1, to September 30, 2003 for Williston and Kinbasket reservoirs are 100 per cent and 85 per cent of normal, respectively. The overall system runoff forecast is estimated at 94 per cent of normal.
- System storage energy on March 31, 2003 was about four per cent more than the same date last year, but about 1840 GW·h below the historical average for this time of year. As a result, energy purchases will be needed over the next year to offset the below-normal inflow forecast as well as the low Kinbasket Reservoir storage level (15 m below normal on March 31, 2003) in the Columbia Basin.
- Generation's Commercial Performance during the year was 99.4 per cent, well above Plan of 99.0 per cent due to the focus placed on this key indicator of success. For reference, a 0.1 per cent improvement in Commercial Performance equates to approximately $2.5 to $3.0 million additional gross revenue. The average Forced Outage Factor (excluding Burrard Generating Station) was 1.34, equal to the previous year's results.

Peace River Area

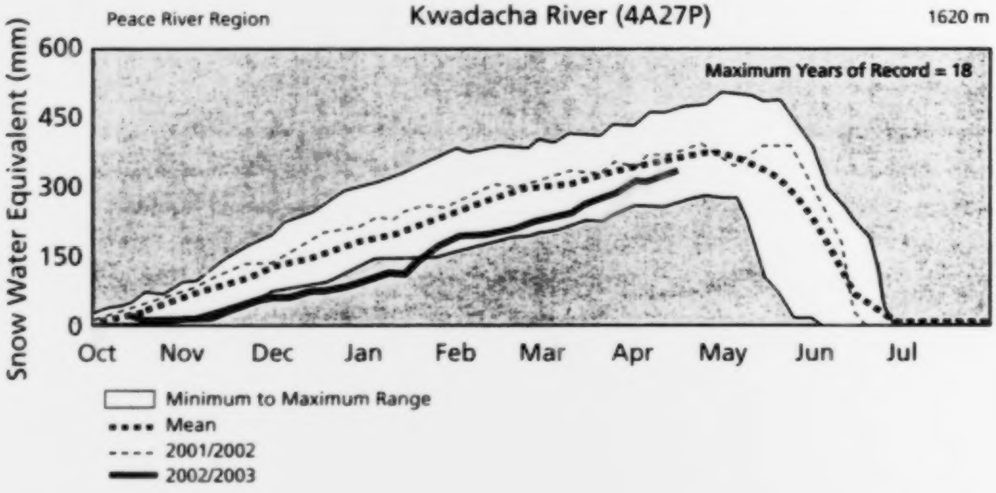
- The Peace River Area includes Generation's single largest facility, the 10-unit, 2730 MW G.M. Shrum Generating Station and the 4-unit, 700 MW Peace Canyon Generating Station.
- The Peace Area key performance measure results were as follows:

	Commercial Performance	Avg. number of forced outages per unit
G.M. Shrum	99.13	2.90
Peace Canyon	99.55	1.75

- For the Peace River basin, snowpack accumulations were fairly typical during the winter of 2001/2002. The April 1, 2002 runoff forecast was in the "near-normal" range (107 per cent of normal); however, due to above-average spring/summer rainfall, the eventual recorded 2002 water supply for the Peace River basin was very high, at 124 per cent of normal. The Williston Reservoir filled to its full-pool level during the summer of 2002 and a spill was initiated to prevent the reservoir from exceeding its full-pool level.



- Snowpack accumulations during the winter of 2002/2003 began slowly but improved in March and early April. Snowpack levels are now in the near-normal range and the April 1, 2003 runoff forecast is 100 per cent of normal.
- The following plot shows the accumulated snow water equivalent at Kwadacha River, a representative "snow pillow" recording station within the Peace River basin watershed.



- Capital investment in the Peace River Area was $37.8 million, which is $5.6 million or 19 per cent above Plan. The variance was largely due the early delivery of transformers and additional costs related to First Nations negotiations.
- GM Shrum Generating Station Unit 7 was refurbished. As part of this work, the turbine was replaced under BC Hydro's Resource Smart program, resulting in an increase of 81 GW·h of energy at a cost of $10 million. A similar work program is scheduled for Unit 6 during 2003.
- In another Resource Smart project, the Peace Canyon Generating Station tailrace was dredged to increase the net head, resulting in the restoration of 49 GW·h of energy at a cost of $2.3 million.
- Concerns have been raised about the premature end of life of the generators at Peace Canyon Generating Station. BC Hydro has assembled an Advisory Panel of international experts to provide advice to BC Hydro on this issue.

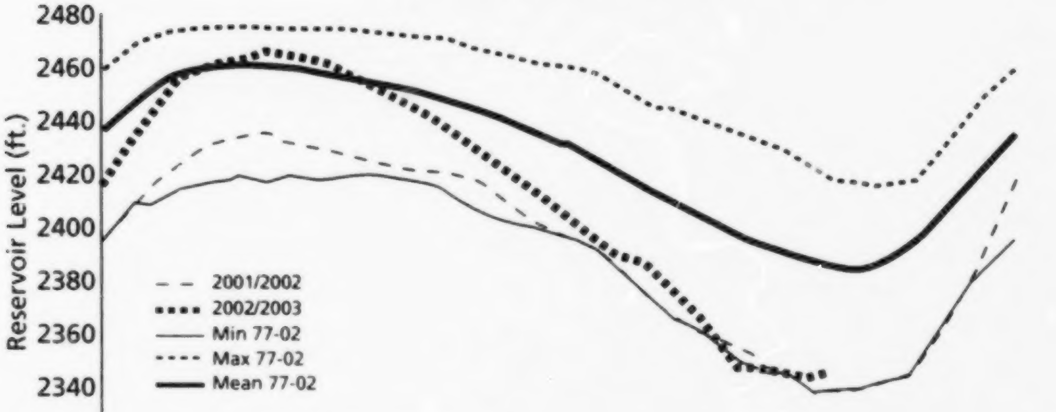
Upper Columbia Area

- The Upper Columbia Area has the largest installed capacity of the five Generation areas and includes the following facilities:
  - the 4-unit, 1860 MW Mica Generating Station;
  - the 4-unit, 2000 MW Revelstoke Generating Station;
  - Walter Hardman (WHN), Shuswap (SHU) and Whatshan (WGS) generating stations, totalling 5 units and 68 MW.
- The key performance measure results for Upper Columbia's major facilities were as follows:

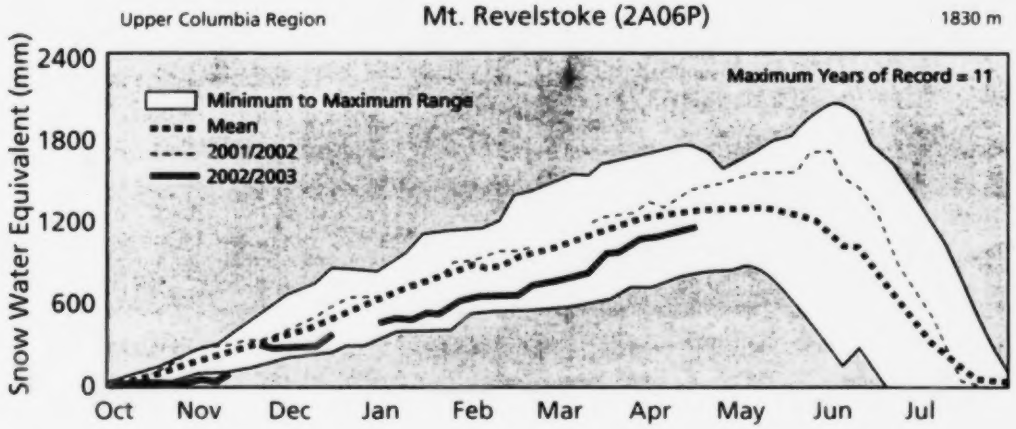
	Commercial Performance	Avg. number of forced outages per unit
Mica	99.68	2.75
Revelstoke	99.86	0.75
WHN, SHU, WGS	95.93	1.60

- The recorded 2002 water supply for the Columbia River basin was near normal (99 per cent of normal for the Kinbasket basin). Kinbasket Reservoir reached a record-low level in April 2002, but was refilled to within three metres of its full-pool level during the summer of 2002. Snowpack accumulations during the winter of 2002-03 were very low until the end of February but improved in March and early April. However, the April 1, 2003 runoff forecast is still below normal at 85 per cent of normal.

Kinbasket Reservoir Levels



- The following plot shows the accumulated snow water equivalent at Mt. Revelstoke, a representative "snow pillow" recording station within the Columbia River basin watershed.



- While the overall system runoff forecast is now estimated at 94 per cent of normal, the inflow to Kinbasket Reservoir, above Mica Dam, is forecast to be 85 per cent of normal. As of March 31, summer reservoir levels are expected to be among the lowest on record and will likely result in environmental impacts. As was done during fiscal 2003, BC Hydro will seed parts of the drawdown zone to control dust along Kinbasket Reservoir. In recent years, the seeding program on the Arrow Reservoir downstream of the Revelstoke Dam has proven to be very effective in controlling dust and creating a biologically diverse habitat.
- Capital investment in the Upper Columbia Area was $8.1 million, $2.7 million above Plan. Overexpenditures occurred in Resource Smart and dam safety investigations.
- Coursier Dam, which supplies water to Walter Hardman Generating Station east of Revelstoke, has had a history of dam safety seepage and piping incidents since 1969. The dam is unsafe in its present condition when the reservoir level is high. As a result, restrictions have been placed on the maximum reservoir level to ensure the safety of the dam. The value of the water storage behind the dam does not justify rebuilding the dam to a safe condition. Consequently, the dam is to be decommissioned. During the year, extensive public, environmental and regulatory consultations were completed along with preliminary design of channel restoration works. The project is scheduled for completion in 2005 with a dismantling and environmental restoration cost of $5 million.
- An ongoing problem with the condition of the Mica Generating Station generators has progressed to the point where BC Hydro must address the issue. Alternatives are being examined and a proposed approach will be finalized during the upcoming year.

Kootenay Area

- The Kootenay Area includes the following facilities:
  - the 4-unit, 580 MW Kootenay Canal Generating Station;
  - the 3-unit, 600 MW Seven Mile Generating Station;
  - Spillimacheen (SPN), Elko (ELK) and Aberfeldie (ABF) generating stations, totalling 6 units and 21 MW.

- The key performance measure results for the Kootenay Area's major facilities were as follows:

	Commercial Performance	Avg. number of forced outages per unit
Kootenay Canal	99.79	3.50
Seven Mile	99.69	4.33
SPN, ELK, ABF	95.10	4.71

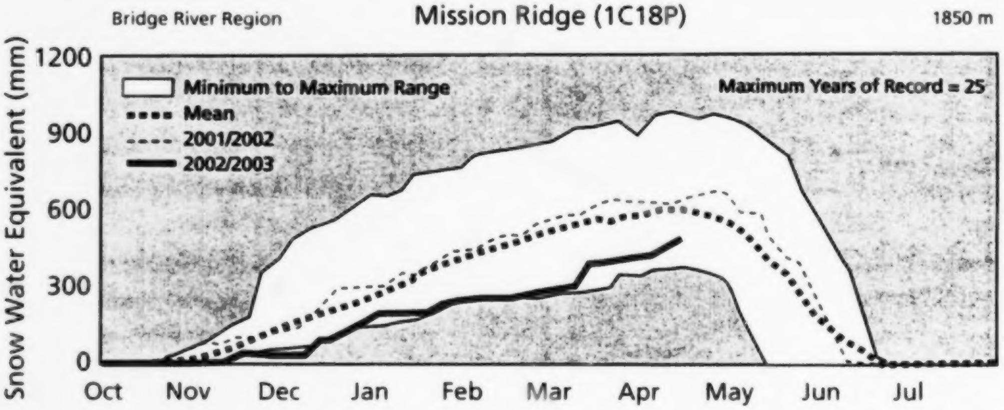
- BC Hydro signed a "Non-Power Uses" agreement with the U.S. under the Columbia River Treaty to reshape Arrow discharges during the April-July period in order to protect rainbow trout spawning activity. Without the agreement, Arrow Treaty discharges would have been very high in April during the peak spawning time for rainbow trout, and would have then reduced to a very low value for the May-June period, likely resulting in stranding eggs.
- Capital investment in the Kootenay Area was $58.0 million, $2.1 million or four per cent above Plan. The variance was due to a number of smaller capital projects undertaken during the year.
- Construction of a fourth unit at Seven Mile Generating Station was initiated in January 2001, with an accelerated schedule to meet an in-service date of April 2003 to take advantage of the spring freshet. The 210 MW addition, which will cost $89 million, will generate approximately 300 GW·h of energy a year. During the year, civil construction and installation of major equipment was completed and, as of the end of the fiscal year, the unit was undergoing final commissioning. Major equipment was supplied under BC Hydro's Partnering Agreement with GE Hydro.
- Seven Mile dam safety improvements were initiated in February 2002 to upgrade the dam to improve reliability and meet present-day earthquake standards. Installation of large steel anchors commenced in 2002 to enhance the stability of the concrete dam, and this work is continuing. The project is scheduled to be completed by 2005 at a cost of $84 million.

Bridge River/Coastal Area

- The Bridge River/Coastal Area comprises 25 dams, 19 powerhouses and 38 generating units with an installed capacity of 1535 MW located in 13 river basins throughout the province. The largest facilities include the eight-unit, 466 MW Bridge River complex; the two-unit 167 MW Cheakamus Generating Station, the six-unit 132 MW John Hart Generating Station, the three-unit, 105 MW Ruskin Generating Station and the two-unit, 91 MW Stave Falls Generating Station
- The key performance measure results for the Bridge River/Coastal Area's major facilities were as follows:

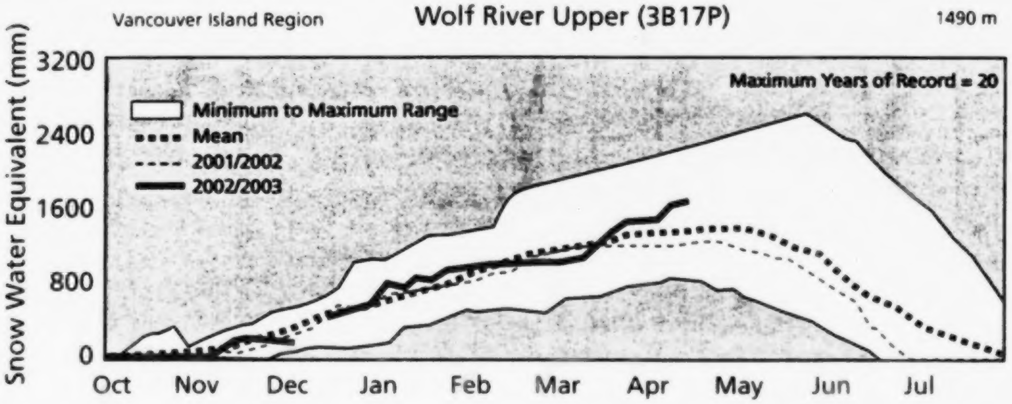
	Commercial Performance	Avg. number of forced outages per unit
Bridge River	99.36	1.50
Cheakamus	99.73	11.50
John Hart	must run	1.17
Ruskin	99.62	5.67
Stave Falls	99.78	5.00
Other Bridge/River Coastal Plant	98.39	4.53

- The low average number of forced outages at John Hart is especially noteworthy due to increased maintenance investment and risk management procedures put in place to prevent generating unit outages. The Campbell River is an important salmon habitat and equipment failures that disrupt flows in the Lower Campbell River have the potential to cause fish mortalities. In early 2001 there was an average of one forced outage every three weeks, but through enhanced maintenance, improved operating procedures and risk management, there has not been a forced outage that would create concerns for fish flows since September 2001.
- The high average number of forced outages per unit at Cheakamus was largely due to cooling water problems. The cooling water system at Cheakamus will be replaced over the next two years during the planned turbine upgrades.
- Snowpack accumulations in the Bridge River basin during the winter of 2002-2003 have followed the same pattern as those in the Peace and Columbia basins – lower than normal until the end of February and then improving in March and early April. However, the April 1, 2003 runoff forecast is still below normal at 88 per cent of normal.
- The following plot shows the accumulated snow water equivalent at Mission Ridge, a representative "snow pillow" recording station within the Bridge River basin watershed.



- Snowpack accumulations in the Coastal (Lower Mainland and Vancouver Island) basins during the winter of 2002/2003 have followed the same pattern as those in the remainder of the province – below normal until the end of February and then improving in March and early April. The composite April 1, 2003 runoff forecast for these basins is slightly below normal, but individual project forecasts range from 91 per cent to 107 per cent of normal.

- The following plot shows the accumulated snow water equivalent at Wolf Upper, a representative "snow pillow" recording station in the Campbell River basin (Vancouver Island).



- Capital investment in the Bridge River/Coastal Area was $35.2 million, which is $5.6 million or 19 per cent above Plan. The variance was largely related to the Elsie Dam and Coquitlam Dam projects.
- Dam safety improvements at Elsie Dam will improve the dam's performance in major earthquakes. The work on the earthfill dam was completed in 2001, and during 2002 upgrades were made to the upstream portion of the low-level outlet structures in the dam. The remaining upgrades to the low level outlet conduit and valves are scheduled for completion by 2005 at a total project cost of $17 million.
- The Coquitlam Dam requires upgrading to meet current earthquake standards. During 2002 various remediation options have been investigated and the preferred option has been determined. The project costs will be about $40 million and remediation is expected to be complete in 2005. In the interim, the reservoir has been restricted to protect public safety.
- During fiscal 2003, Bridge River #1 Units 1 and 4 were refurbished. As part of this work, the turbines were replaced under BC Hydro's Resource Smart program, resulting in an increase of 28 GW·h at a cost of $5.1 million. A similar work program is scheduled for the remaining two units during 2003.

Thermal Generation Area

- The Thermal Generation Area includes BC Hydro's three thermal facilities:
    - the six-unit, 912 MW Burrard Generating Station;
    - the two-unit, 46 MW Prince Rupert Generating Station; and
    - the single-unit 45 MW Fort Nelson Generating Station.
- The key performance measure results for the Thermal Area facilities were as follows:

	Commercial Performance	**Avg. number of forced outages per unit**
Burrard	n/a	3.00
Prince Rupert	n/a	2.50

- Capital investment was $23.9 million, which was equal to Plan.
- As announced in the British Columbia Government's Energy Plan (*Energy for our Future: A Plan for B.C.*), released in November 2002, an MLA Task Force has been established to determine the future of BC Hydro's gas-fired Burrard Generating Station. Burrard is important to BC Hydro system by supporting transmission transfer capability. Options include continued operation of the existing plant; phasing out the plant; or repowering the plant, to take advantage of the latest technology in terms of efficiency and emissions.

Financial Highlights

	Net Income ($ millions)	OMA ($ millions)	Capital ($ millions)	Cost of Energy ($ millions)
Plan	$127.7	118.4	184.3	640.0
Actual	$160.0	119.5	187.4	649.2

- Financial results for fiscal 2003 were strong, with Net Income at 25 per cent above Plan. This was largely due to higher domestic sales and lower finance charges compared with Plan.
- OMA expenditures of $119.5 million were $1.1 million over Plan due to the write-down of Stores inventory. Besides area-specific capital spending, $24.3 million was spent on various projects related to Information Technology, Water Use Plans, employee safety and the environment.
- The Cost of Energy, which is the direct cost incurred for the acquisition of electricity (market purchases) or the raw resources required to generate electricity at BC Hydro facilities (water rentals and natural gas), was $9.2 million above Plan. This was due to increased energy production to meet higher customer demand, which was up 1.9 per cent. Higher electricity purchases were offset by lower-than-Plan purchases from IPPs and reduced use of BC Hydro thermal resources. Net purchases were 287 GW·h above Plan.

Environmental Highlights

Resource Smart Energy Gains (GW.h/yr)	2003	2002	2001	2000	1999	1998
Restored Energy	**33**	0	0	288	0	25
Cumulative Restored Energy	**941**	908	908	908	620	620
New Energy	**125**	49	0	77	52	0
Cumulative New Energy	**752**	627	478	478	501	449
Total Cumulative Energy Gains	**1535**	1486	1486	1121	1069	

BC Hydro launched its Resource Smart Program in 1987 to improve efficiencies at our generating facilities ("new energy") and to restore capability ("restored energy") that is often lost gradually over time. In the table, new energy refers to energy over and above the original facility capability and services to defer the construction of new facilities; restored energy refers to restored capability that has been gradually lost over time. Fiscal 2003 plan was to improve efficiencies by 164 GW.h/year. The actual energy gain was measured 158 GW.h/year of new and restored energy. The actual amount was 6 GW.h/year lower than Plan due to slightly lower than expected efficiency gain at the G.M. Shrum Unit 7 turbine upgrade.

- Environmental compliance was significantly better than Plan, reflecting the benefits of the Environmental Management System implemented by Generation in 1999 and 2000, which enables focus on Generation's highest environmental risks.

	Water Use Planning Program Completion
Plan	54%
Actual	54%

- BC Hydro initiated its Water Use Planning Program in November 1998. Under the program, Water Use Plans will be developed for all of Generation's hydroelectric facilities. The plans will determine how water is to be managed to best address the range of water use interests. BC Hydro's objectives for the program are to provide greater clarity in operations, in particular greater clarity of regulatory compliance under both the provincial Water Act and the federal Fisheries Act; balance economic, environmental and social values; and build consent to operate.
- There are four stages to the Water Use Planning process: establish objectives of interested parties and develop measures for achievement of objectives; research, consultation and trade-off discussions; drafting and submitting the Water Use Plan to the Water Comptroller for approval; and issuance of Water Licences or Orders.
- As of the end of the fiscal year, just over half of the Water Use Plan program had completed consultations. With the exception of the Columbia Water Use Plan, BC Hydro will complete consultation and submit all Water Use Plans in the next fiscal year. In addition, BC Hydro will develop processes necessary to implement the Plans. Recommendations for modified operations will be implemented when new Orders or Water Licences are issued by the Water Comptroller.

Water Use Plans

	Objectives and Measures	Research, Consultation and Trade-offs	Draft and Submit Water Use Plan	New Orders/Licences
Jordan River	■	■	■	▨
Campbell River	■	■	▨	
Puntledge	■	▨		
Ash River	■	■	▨	
Coquitlam/Buntzen	■	■	▨	
Clowhom	■	▨		
Wahleach	■	■	▨	
Cheakamus	■	■	▨	
Bridge River/Seton	■	■	▨	
Falls River	▨	▨		
Clayton Falls	■	▨		
Columbia River	■	▨		
Walter Hardman	▨			
Duncan	■	▨		
Kootenay Canal				
Whatshan	■	▨	▨	
Shuswap	■	■	▨	
Spillimacheen	■	■	▨	
Aberfeldie/Elko	■	■	▨	
Peace River	■	▨		
Alouette/Stave/Ruskin	■	■	■	▨
Seven Mile	■	■	■	▨

Completed ■ In progress ▨

Social Highlights

	All injury frequency (injuries/ 100,000 hrs.)	Strategic workforce planning (positions filled)
Plan	2.03	8
Actual	2.03	8

- Generation was on Plan for all injury frequency and eight per cent better than fiscal 2002 results of 2.2. This is largely due to the focus on safety, including the adoption of the Generation Occupational Health and Safety Management System.
- Generation has an aging workforce. Twenty-one per cent of its workforce are over age 55 and 36 per cent are between 45 and 54 years of age. To address this issue, Generation developed a Strategic Workforce Planning process to provide continuity of a skilled workforce. Generation was on Plan for filling identified key positions.
- The Athabasca Chipewyan and Mikisew Cree First Nations filed suits in Alberta against BC Hydro, the province and Canada in the late 1990s. BC Hydro decided to seek negotiated solutions while continuing to prepare for litigation. BC Hydro began negotiations with the Athabasca Chipewyan in 2000 and reached a settlement agreement in November 2002. Substantive negotiations with the Mikisew Cree are expected to begin in late spring 2003.
- Generation will also focus on resolving past grievances with the Tsey Keh Dene and Kwadacha, the First Nations most affected by the creation of Williston reservoir and Stl'atl'imx First Nation.
- In 2003 Generation participated in BC Hydro's Survey of Employee Commitment. Generation's Employee Commitment Index was 3.57, compared with the average for large Canadian companies of 3.88. Generation's goal over the next two years is to reach the Canadian average.
- Face-to-face communication is a key to employees understanding and aligning to the values, principles, strategy and objectives of any organization. During fiscal 2004, Generation will place an emphasis on discussing Generation goals and objectives with employees to help develop commitment to Generation's future direction.

Fiscal 2004 Objectives

- In late April 2003 BC Hydro filed its recommendations with the BCUC with respect to the Commission's inquiry into the legislative changes necessary to implement the provincial government's Energy for our Future: A Plan for B.C. This will result in a legislated "Heritage Contract" that will preserve the value of BC Hydro heritage resources for the benefit of the ratepayer. The Heritage Contract will be based on energy from existing generating stations under average water conditions.
- Generation will provide advice to the BCUC on Generation's cost of supplying energy to Distribution, the price that the Distribution Line of Business should pay, the principles and impacts of providing ancillary services to the BC Transmission Corporation (BCTC), and appropriate adjustment mechanisms.

1. **Generation will align its business model and processes to implement the Heritage Contract to drive economically efficient decisions for supply and trade to maximize the value of BC Hydro Generation assets.** A key component is the development of a business relationship with BC Hydro Distribution, a commercial contract with BCTC, and Interconnection Agreements for each of Generation's facilities.
2. **Over the next five years, Generation's goal is to move from top quartile to top decile (top tenth) both in terms of the cost and the performance of its core and strategic assets.** Generation will reduce overhead costs by eliminating inefficiencies, being more innovative and implementing best-in-class business processes and information technology.

   To achieve this long-term objective, Generation will, in the next year:

   - Examine ways to further optimize the value of the Heritage assets by
     - improving the interfaces between prices in the market and plant maintenance, scheduling and planning;
     - employing best-in-class capital management processes to ensure that capital projects are on time, within scope and targeted to key areas of risk and return; and
     - examining the model for managing and maintaining the smaller generation assets in a more cost-effective manner.
   - Complete the development phase of the Water Use Planning process and begin the implementation of the changes that result from the water use plans.
   - Continue to work side by side with Powerex to ensure that the costs of purchasing energy for the domestic market are minimized.
   - Continue to focus on benchmarking facilities and putting in place plans and initiatives to improve performance in operating, maintaining and administering the assets.
   - Reduce incidences of safety and environmental violations and continue to form best practices and processes in the Employee Health & Safety area.
   - Push towards the goal of eight of ten Generation employees knowing Generation's strategy and believing they have a clear role in working to implement its goals and objectives.

   - A strong company ensures that cash is allocated to the areas of greatest value. To assist with this, Generation is putting in place an asset management process built around 20-year Asset Plans for each facility and a Consolidated Generation Asset Plan that includes prioritization of investments to maximize contribution margin and manage risk. Asset Plans bring together the technical and economic aspects of each facility to ensure that the right investments are made in the right facilities at the right time so as to maximize the value of Generation's assets. From a reliability perspective, Generation will also look at the best use of maintenance and sustaining capital.

3. **Energy Purchase Model.** Generation will look at improving energy purchasing models and processes.

TRANSMISSION

Fiscal 2004 Estimates

Employees* (FTEs)	Capital Replacement Value** ($M)	Capital Expenditure ($ Millions)
228	$11,300	$180

* Excludes employees outside the Line of Business who provide a wide range of corporate services to Transmission.

**Capital replacement value is an estimate of the replacement cost of depreciable assets, which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

Overview

- BC Hydro's Transmission Line of Business plans, constructs, maintains and operates the "Energy Highway" for transferring bulk electricity from generating plants to large industrial customers and to electricity distribution organizations including BC Hydro's Distribution Line of Business. Transmission also transports electricity from and to interconnection points with Alberta, the U.S. and other utilities within British Columbia for enabling electricity trade. Transmission provides non-discriminatory access to transmission capacity and ensures high levels of availability to serve customer needs.
- Transmission earns a regulated rate of return on equity. It offers unbundled Wholesale Transmission Services (WTS), which are tariff services reviewed and approved by the British Columbia Utilities Commission. Transmission is established as an asset management/operation business, acquiring services from BC Hydro's Engineering, Field Services and Shared Services units for the completion of maintenance and capital programs.
- Transmission is responsible for operating and managing the following facilities throughout British Columbia:
  - System and Area Control Centres at five locations
  - 18,000 km of transmission lines (69 kV to 525 kV)
  - 287 switching, distribution and capacitor stations
  - Microwave and associated telecommunications systems

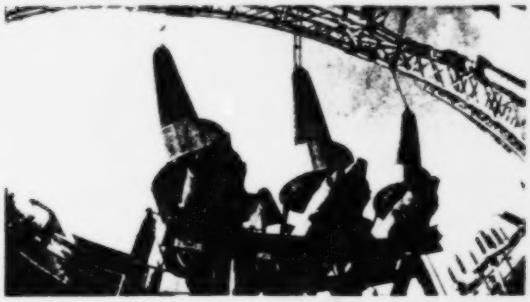
Benchmarking

Benchmark	Description	Transmission	Reason
Transmission efficiency*	Ratio of transmission expenditures to total transmission structure length	2nd Quartile	Challenging, mountainous terrain, undersea crossings, weather
Substation efficiency*	Ratio of substation expenditures to total transformation capacity	1st Quartile	Effective process design
Interruptions to distribution network caused by transmission and substation outages**	Ratio of total duration of all delivery point interruptions to total number of delivery points	3rd Quartile	Difficult terrain, radial feeds in remote areas, aging infrastructure, animal-induced outages

* October 2002 PA Consulting Group survey

** August 2002 Canadian Electricity Association Report for 1997-2001 Performance

TRANSMISSION



Fiscal 2004 Estimates

Employees* (FTEs)	Capital Replacement Value ** ($ Millions)	Capital Expenditures ($ Millions)
228	$11,300	$180

* Excludes employees outside the Line of Business who provide a wide range of corporate services to Transmission

**Capital replacement value is an estimate of the replacement cost of depreciable assets, which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

Overview

- BC Hydro's Transmission Line of Business plans, constructs, maintains and operates the "Energy Highway" for transferring bulk electricity from generating plants to large industrial customers and to electricity distribution organizations including BC Hydro's Distribution Line of Business. Transmission also transports electricity from and to interconnection points with Alberta, the U.S. and other utilities within British Columbia for enabling electricity trade. Transmission provides non-discriminatory access to transmission capacity and ensures high levels of availability to serve customer needs.
- Transmission earns a regulated rate of return on equity. It offers unbundled Wholesale Transmission Services (WTS), which are tariff services reviewed and approved by the British Columbia Utilities Commission. Transmission is established as an asset management/operation business, acquiring services from BC Hydro's Engineering, Field Services and Shared Services units for the completion of maintenance and capital programs.
- Transmission is responsible for operating and managing the following facilities throughout British Columbia:
  - System and Area Control Centres at five locations
  - 18,000 km of transmission lines (69 kV to 525 kV)
  - 287 switching, distribution and capacitor stations
  - Microwave and associated telecommunications systems

Benchmarking

Benchmark	Description	Transmission	Reason
Transmission efficiency*	Ratio of transmission expenditures to total transmission structure length	2nd Quartile	Challenging, mountainous terrain, undersea crossings, weather
Substation efficiency*	Ratio of substation expenditures to total transformation capacity	1st Quartile	Effective process design
Interruptions to distribution network caused by transmission and substation outages**	Ratio of total duration of all delivery point interruptions to total number of delivery points	3rd Quartile	Difficult terrain, radial feeds in remote areas, aging infrastructure, animal-induced outages

* October 2002 PA Consulting Group survey

** August 2002 Canadian Electricity Association Report for 1997-2001 Performance

Operations Highlights

- Robert T. Reid was appointed as Chair designate and Michael Costello was appointed as Acting President & CEO of the new British Columbia Transmission Corporation (BCTC). The full BCTC Board of Directors was appointed in June 2003. A considerable amount of work took place in the latter part of the fiscal year to transfer the existing BC Hydro Transmission business to BCTC.
- BC Hydro collaborated with nine Western U.S. utilities to develop a model for a Regional Transmission organization – RTO West – and filed a proposal with the U.S. Federal Regulatory Commission (FERC) in March 2002. FERC issued a favourable Declaratory Order in September 2002, requesting RTO West to address specific concerns with its filing. Work continued through the year to address these issues as well as matters related to the final structure and operation of RTO West. If RTO West is formed, it is expected to be operational in about four years, but incremental steps toward the end state may commence sooner.
- B.C.'s participation with the RTO West process will be a responsibility of the new British Columbia Transmission Corporation (BCTC). BCTC will operate the B.C. system, and the British Columbia Utilities Commission (BCUC) will regulate the transmission system in B.C. BCUC will set the tolls and tariffs and BCTC will be subject to BCUC regulation. BCTC will be the only entity with operating authority on the B.C. provincial grid, to ensure B.C. maintains control over B.C. operations. BCTC and RTO West would ensure the seamless coordination of exports and imports among utilities, as well as the delivery of electricity from generator to consumer across jurisdictions and systems. The arrangement would also enhance joint planning of upgrade and maintenance work to achieve a seamless flow of energy to the best value markets, ensuring B.C. can maximize trade benefits for British Columbians.
- Supply to Vancouver Island was at risk four times this past year:

Challenge	Date	Reason	Action	Restoration Time
Extensive damage to 500 kV line between Cheekye and Malaspina substations	Dec 12	Heavy rain and snowmelt caused mudslide, pulling down several structures	Major repair effort launched	Line restored in mid-January – due to difficult terrain and complexity of repairs
Flashover of a 500 kV line resulted in loss of service to 60% of VI customers for varying periods	Dec 26	Heavy icing in mountainous areas of Sunshine Coast	Fast response by repair crews minimized the outage	30 minutes to three hours
500 kV line forced out of service	Feb 12-16	Circuit breaker problem	Initiated replacement program for this class of circuit breakers at critical locations in the 500 kV system	No customer outages
Two 500 kV transmission lines faulted	Mar 22	Lightning	Normal restoration procedures	Two-hour interruption to 135 000 customers

- The metropolitan Lower Mainland transmission system faced two challenges this year. Cable 2L64 failed in July 2002, forcing South Vancouver and Point Grey customers connected to Sperling and Camosun substations to be supplied from a single cable circuit. Repairs to 2L64 were successfully completed in November, at a cost of $800,000. In December, a Certificate of Public Convenience and Necessity (CPCN) was issued by the British Columbia Utilities Commission for installation of a new underground 230 kV cable circuit 2L33 between Horne Payne and Cathedral Square substations. This $44 million project will be completed in May 2004 and will help to secure reliable supply to downtown Vancouver.
- Two new 69 – 25 kV distribution substations were placed in service this year:

Location	Reason	Cost	Construction Period
Nicomekl	Increased load growth in South Surrey	$5.8 million	Eight months
Chilliwack	Load growth in Eastern Fraser Valley; improve visual impact	$6.6 million	Six months

Financial Highlights

	2003 Actual	2003 Plan	% change
Replacement Capital Ratio	0.9%	1.0%	–
OMA Expenditures	$128 million	$127.2 million	–
Net Income	$288.4 million	$245.8 million	17%

- Net income exceeded Plan by $42.6 million (17 per cent) due to higher Transmission short-term volumes and lower financing charges resulting from lower interest rates and the impact of a stronger Canadian dollar.

Environmental Highlights

- To assess potential areas for improvement, BC Hydro encourages the reporting of all apparent environmental incidents, no matter how small. Transmission reported a total of 22 incidents in fiscal 2003, a decrease of eight incidents compared with the previous year. Of these incidents, two were legally reportable to agencies and preventable under Transmission's Environmental Compliance requirement, well below the target of eight reportable incidents. Reporting thresholds for spills depend on the type of substance and whether the spill reaches water. An incident is judged *preventable* if it could have been avoided by adherence to documented procedures or other reasonable and prudent work practices. The two reportable incidents are summarized below.

Location	Incident type	Cause/mode	Description of incident	Response/status	Key outcomes
Port Alberni substation	Spill	Human error	Incorrect manifest, waste oil from Port Alberni substation to Surrey Oil Operations was transported as <50ppm PCB when in fact it was 270 ppm.	Spill response procedures; site cleaned up.	Best Management Practices for oil-filled equipment are being developed. These will address the issue of sampling prior to shipment.
100 Mile House	Spill	Human error	Air pocket in mobile oil treatment at 100 Mile House caused oil to overflow (140 litres).	Spill response procedures; site cleaned up.	Best Management Practices for oil-filled equipment are being developed and will address this issue.

- A number of environmental initiatives were put forward this past year:

Initiative	Cost	Rationale/Benefit
Checklist procedure and inventory system	$3,000	Assist field staff to identify and report maintenance needs to ensure protection of access roads and the environment.
Wildlife strategy	$8,000	Identify the complete range of wildlife impacts associated with the transmission system.
Wildlife inventory of Lower Mainland rights-of-way	$30,000	Part of a land use management strategy to meet the intent of provincial and federal legislation.
Risk management program	Staff time to review data from previous field reviews.	Identify sites where contamination may pose a risk to the environment.
PCB reduction	$2,525,000 – of which $2.5 million for 603 000 kg from McLeese was the most significant.	603 000 kg of PCB capacitors removed from McLeese Lake Station and destroyed. Approximately 80 000 kg of large capacitors remain in service at 17 substations and will be destroyed by 2007.
Reduce sulphur hexafluoride (SF_6) emissions	One circuit breaker at Rosedale and one at Bridge River at total cost of approximately $1.2 million.	Circuit breakers replaced at two of the substations where major SF_6 leaks have been identified.

Social Highlights

- Transmission has implemented a comprehensive strategic workforce planning process to ensure that the right people with the right skill are available when needed, and to ensure excellence in leadership and business knowledge.
- To recognize excellence in the workforce, Transmission awarded seven Transmission and two Engineering employees with the Transmission Excellence Award for their significant contributions to the success of the organization. A total of 53 employees were nominated for the award.
- In June 2002, BC Hydro's innovative Hydrogen Program, managed by Transmission, was awarded funding for two projects under the joint Federal-Provincial Western Economic Partnership Agreement (WEPA). A project to develop the world's first 10 000 psi hydrogen vehicle fuelling station at Powertech Labs was awarded $1 million. A project to develop a 1.2 kW fuel cell-based battery replacement unit for use in microwave repeater stations was awarded $285,000.
- BC Hydro worked with the City of Surrey to plant low-growing shrubs in Hi-Knoll Park on the border between Surrey and Langley to mitigate the risk to the transmission system and maintaining the park's recreational and aesthetic values.
- Working with the Generation line of business, Transmission removed trees posing a hazard to two transmission circuits close to a recreation area near Strathcona Dam on Vancouver Island. The rights-of-way were groomed to enhance recreational use and low-growing plants were placed around campsite entrances to screen the sites from the right-of-way.

Fiscal 2004 Objectives

- During the year, Transmission developed a comprehensive strategy to move the Transmission organization forward in the context of changing market, shareholder and stakeholder expectations. The strategy will transition this LoB from an inward focus to a stakeholder focused organization. The strategy comprises four thrusts aligned to the needs of stakeholders:

1. **Business** – Develop an independent, commercially viable business structure through formation of the British Columbia Transmission Corporation.
2. **Market Development** – Enable the new electricity marketplace: meet the needs for open transmission access, create efficient electricity markets in B.C., and participate in wider regional markets.
3. **Team** – Enhance workforce expertise and competency, with high safety and environmental standards.
4. **Energy Highway** – Ensure that the transmission infrastructure is enhanced and sustained over the long term to meet the needs of domestic customers and to support market development initiatives. Also ensure that investments in transmission assets are prudent and that appropriate returns are realized on asset investments.

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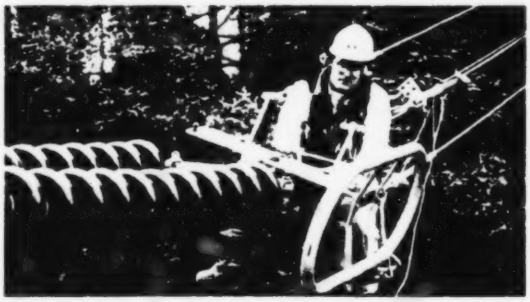


Fiscal 2004 Estimates

Employees	Capital Replacement Value *	Capital Expenditures ($M) **
761	$5,480	$347

* Capital replacement value is an estimate of the replacement cost of depreciable assets, which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

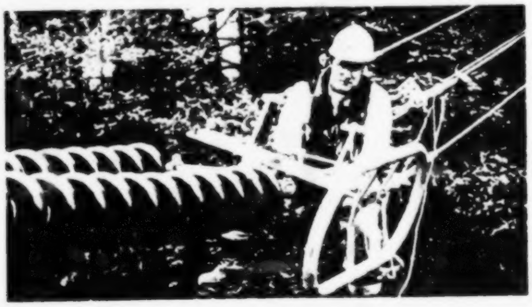
**Includes $116 M of Power Smart deferred capital program expenditures

Overview

- The Distribution Line of Business serves 1.6 million customers and another 6000 customers in non-integrated areas within B.C. We manage 55 000 km of overhead, underground and submarine distribution lines, 860 000 poles and 292 000 transformers in order to provide customers with safe, dependable and reliable energy, as well as extension and connection services. Consistent with the provincial government's new Energy Plan, Distribution's mandate is to:

- Uphold its obligation to serve BC Hydro's domestic ratepayers (Distribution is the single face to the customer and is responsible for providing customer service through contracts and service level agreements.)
- Operate Distribution as a separate Line of Business from Generation
- Administer the Heritage contract to preserve the benefits of BC Hydro's existing generation and electricity trade for Distribution customers
- Develop new rate structures such that large electricity consumers will:
  - be able to choose a supplier other than Distribution
  - provide better price signals for conservation and efficiency
- Maintain high reliability and energy security

DISTRIBUTION



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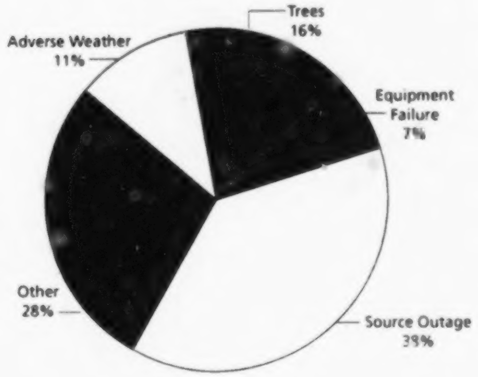
Benchmarking

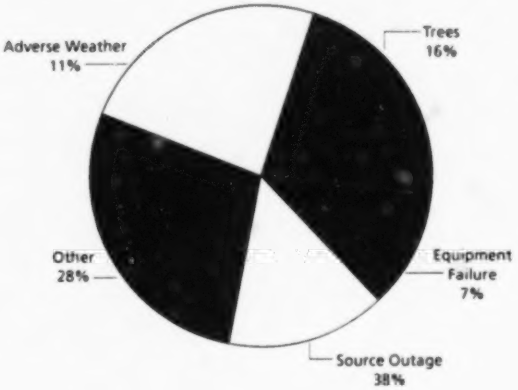
Benchmark	Description	Result		Quartile		Comments
		Actual 03	Plan 03	03	02	
Customer Care	Customer satisfaction survey	93%	84%	n/a	n/a	Tier 1 customers 99%, very high levels of satisfaction among all customer tiers
Service Connections	Number of connections completed	19,300	17,040	n/a	n/a	32% increase over last year
Distribution Efficiency	Ratio of total expenditures to the number of domestic customers	$143 Benchmarking is at the Distribution Wires level, not the entire line of business	$180	1st	1st	Continuous improvement in O&M and capital spending relative to customer growth
Average System Availability Index – ASAI	Indicates the percentage of time power is kept on during a year	99.958%	99.970%	2nd	2nd	When the impacts of severe weather are factored out, results are consistently better than the CEA average
Customer Average Interruption Duration Index – CAIDI	The amount of time an interrupted customer is without power during a year	2.59 hrs.	2.15 hrs.	3rd	3rd	Significantly fewer power interruptions than Canadian average, but Hydro covers a much larger service territory
Power Smart	DSM	B+	n/a	n/a	n/a	Canadian Energy Efficiency Alliance ranking

Fiscal 2003 Customer-Interruptions and Customer-Hours Lost By Cause

2,390,000 Customer Interruptions



6,245,800 Customer-Hours Lost



"Other" refers to causes of outages that are not one of the identified causes outlined in the distribution trouble reporting system and includes birds, motor vehicle accidents, fire, flooding, mud/snowslides, planned outage, etc.

"Source Outage" includes outages caused by trouble on Generation, Transmission, Substation, IPP, and Diesel Generation Equipment that results in an outage to the distribution system.

"Adverse Weather" excludes outages caused by trees or branches and includes outages related to weather events such as lightning, iced conductors, etc.

"Trees" relates specifically to outages where a tree or piece of a tree causes the damage or provides the electrical path.

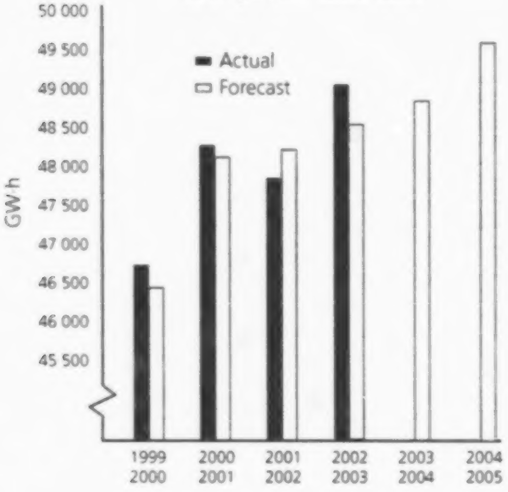
ELECTRICITY LOAD

BC Hydro System

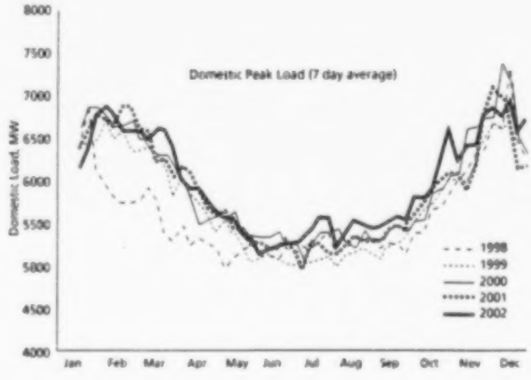
Energy Sales

- Total billed sales were 1207 GW·h higher in fiscal 2003 compared with the previous fiscal year, representing a 2.5 per cent increase.
- Residential sales were 197 GW·h higher in fiscal 2003 compared with the previous fiscal year, representing a 1.3 per cent increase. Although spring 2002 temperatures were colder than normal, winter 2002/2003 temperatures were much warmer than normal. In the 12-month period between April 2002 and March 2003, actual degree days were 3034 compared with the rolling 10-year normal of 3135.[1] The reduction in residential sales from warmer winter temperatures was offset by an increase in the average residential use rate.

BCH System – Billed Sales



* Projected year-end sales include actual sales from April 2002 to January 2003 plus projected sales for February and March 2003.



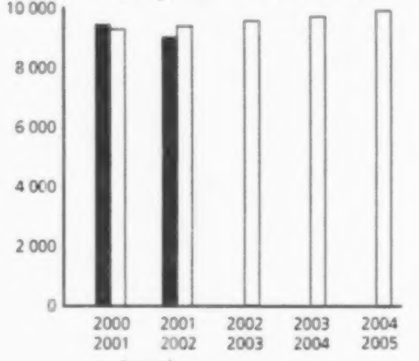
Peak Demand

- BC Hydro's integrated system load to domestic customers reached a one-hour peak of 8481 MW on December 18, 2002, at a daily average temperature of +5.3°C at the Vancouver airport. This compares with the fiscal 2001/2002 peak demand of 8692 MW, which occurred on December 4, 2001 at a daily average temperature of +2.2°C. Factors such as mild winter temperatures contributed to a peak demand that was lower than the all-time record high of 8995 MW, which occurred in the winter of 2000/2001.

* The peak demand is based on the revised peak forecast produced in December 2002.

**Forecast BCH system peak is based on a design daily average temperature of -6.8°C.

BCH System – Peak Demand



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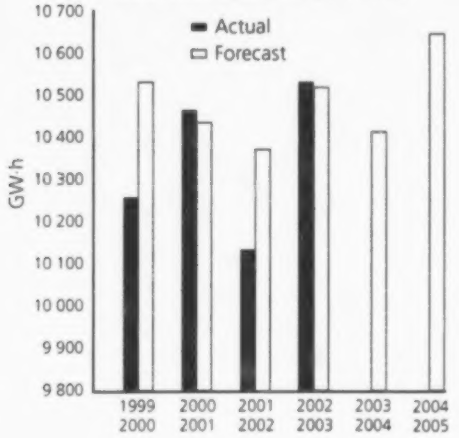
[1] A degree day is the number of degrees below 18°C. For example, if the average temperature one day was 12°C then that day produced six degree days. Degree days are a weighted average for the entire BC Hydro service area.

Vancouver Island (VI)

Energy Sales

- Residential sales were 20 GW·h lower in fiscal 2003 compared with the previous fiscal year. The reduction in residential sales from warmer temperatures was offset by an increase in the average kW·h use per account, in keeping with an increasing trend in residential use per account.

Vancouver Island – Billed Sales

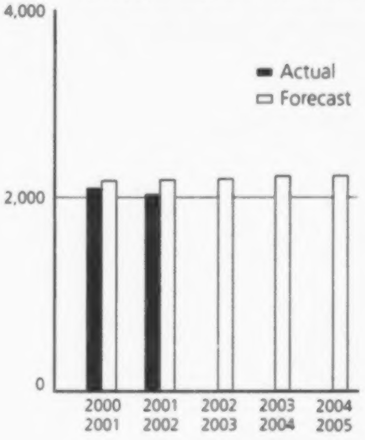


* Projected year-end sales include actual sales from April 2002 to January 2003 plus projected sales for February and March 2003.

Peak Demand

- Vancouver Island's system peak demand reached a one-hour peak of 1999 MW on February 25, 2003 at a daily average temperature of +2.1°C at the Victoria airport. This compares with the fiscal 2001/2002 peak demand of 2005 MW, which occurred on December 17, 2001 at a daily average temperature of +3.8°C. The record within the last five years for the Vancouver Island system is 2065 MW, which occurred in the winter of 2000/2001.

Vancouver Island – Peak Demand



* The peak demand is based on the revised peak forecast produced in December 2002.

**Vancouver Island Peak forecast is based on design daily average temperature of - 4.4°C.

Electricity and Gas Prices

- BC Hydro tracks market information that forms the basis for its future price forecasts for both natural gas and electricity. Because BC Hydro is part of a larger market extending, in the case of natural gas, throughout North America, and in the case of electricity, through the Western and Southwestern United States, BC Hydro is subject to market forces beyond its borders that influence prices.

Forward Market Information

- In the short term, BC Hydro tracks "forward prices," which are market price quotes on transactions for delivery at a specified time and delivery point. For electricity, the nearest (liquid) delivery point is Mid-Columbia, and in the case of natural gas it is Sumas.
- Market forward quotes are readily available for a period of up to two years for electricity and for three to five years for gas. Forward prices for both electricity and natural gas are usually volatile, but they provide an important near-term reference point since they reflect all the information currently available to market participants.

Longer-Term Market Fundamentals

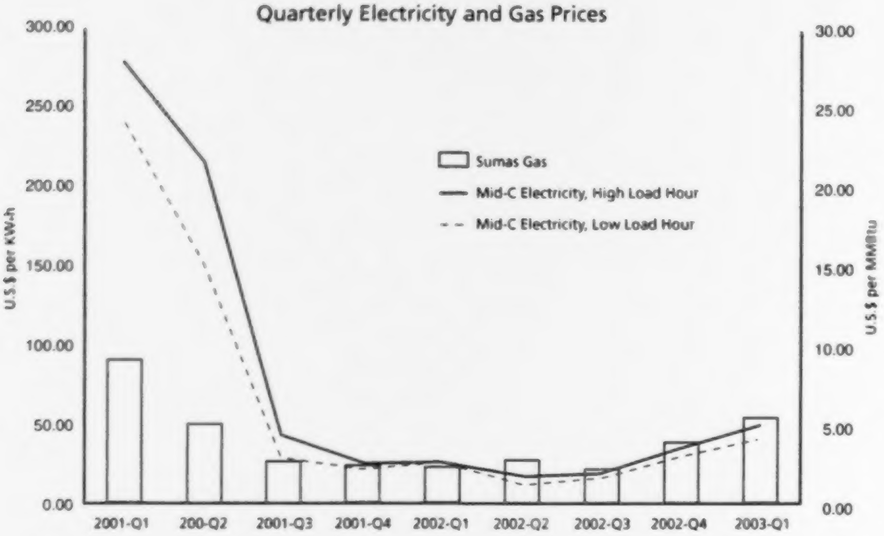
- The longer-term forecast – available from a number of specialized forecasting groups – is based on representing the supply and demand for electricity and of cost drivers expected to prevail. Key factors in the long-term electricity price forecasts are:
  - **Supply**: the expected stock and availability of generating units (especially new units);
  - **Generation Costs**: the expected level of fuel prices (especially gas) and other costs of operating generating units;
  - **Demand**: the level of demand as driven by forecasts of economic activity, technology and expected conservation; and
  - **Regulatory/Market**: the expected state of the regulatory or market environment.
- Key drivers for long run natural gas price forecasts are similar to electricity prices as they relate to supply and production costs:
  - **Supply**: the on-stream timing of new reserves vs. decline rates.
  - **Production Costs**: the costs of exploration and drilling, and the pace of technological advancements that serve to reduce costs
- BC Hydro acquires the forecast output and market analysis of a number of third-party forecasts to supplement its long term forecasting activities.

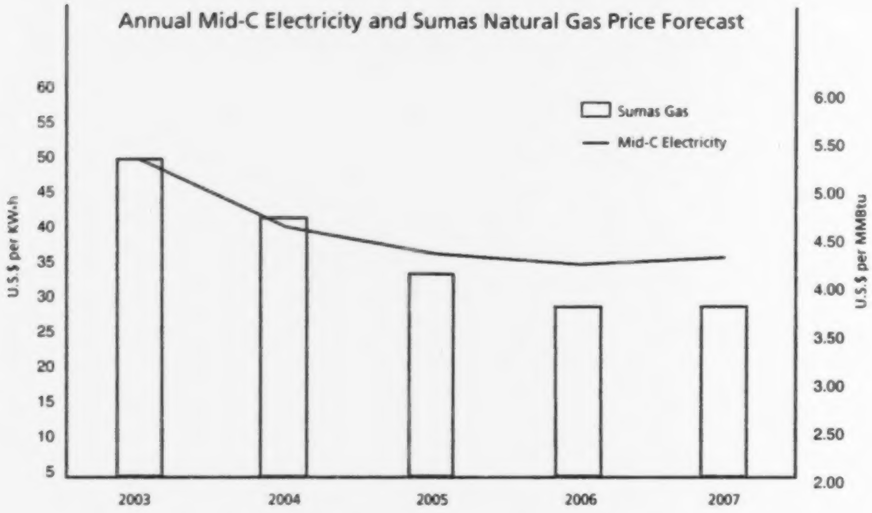
Fiscal Year 2003 Review

- The first half of the fiscal year 2003 can be characterized by:
  - Moderate gas and electricity prices.
  - Historically high levels of gas in storage.
  - High hydro inflows and mild weather.
  - Below-normal summer temperatures in the Western U.S.
  - Operation of new efficient, thermal generation plants.
- The second half of the fiscal year 2003 can be characterized by:
  - Upward trend of electricity and gas prices.
  - Low snowpack accumulation due to dry weather.
  - Cold winter weather, especially in the eastern part of the continent.
  - Declining gas storage inventories due to high levels of space heating demand; and
  - Increasing crude oil prices.

Fiscal Year 2004 Outlook

- Most observers continue to forecast slow but positive economic growth for 2003/2004, with considerable uncertainty.
- Industry experts also predict that the natural gas supply-demand balance will continue to be tight due to continuing increase in gas-fired generation and declining output from maturing North American natural gas supply basins. Consequently, a continuation of volatile gas prices is likely. Electricity prices will be influenced by gas price, and also will be vulnerable to fluctuations in weather that impact hydro supply.





Resource Acquisition

Vancouver Island Generation Project (VIGP)

- Work continued on regulatory requirements for the Vancouver Island Generation Project (VIGP), a new high-efficiency natural gas-fired electricity generation facility to be built at Duke Point near Nanaimo.
- The cost of the project is estimated at $370 million, based on 90 per cent probability of non-exceedance. The in-service date is currently scheduled for July 2006 and will finally be determined following all regulatory approvals.
- The application to the Environmental Assessment Office (EAO) for an Environmental Assessment Certificate is based on constructing the plant on land purchased from Pope & Talbot at the Harmac Mill Site. It was submitted to the EAO on June 17, 2002, for review under BCEAA Bill 29. The new BCEAA Bill 38 came into effect on December 30, 2002 and a Transition Order was issued for the project referral to the Minister to now be completed by June 30, 2003.
- An application to BCUC for a Certificate of Public Convenience and Necessity was submitted on March 12, 2003 and BCUC has issued orders asking for more information. Workshops were scheduled for Nanaimo on April 22 and 23, 2003, with the hearing to start in Nanaimo on June 16, 2003.

Georgia Strait Crossing Project (GSX)

- BC Hydro continued work on the Georgia Strait Crossing Project (GSX), which will provide firm natural gas transportation to Vancouver Island to supply the existing Island Cogeneration Project and the new proposed Vancouver Island Generation Project. This project is jointly sponsored by BC Hydro and Williams Gas Pipeline (WGP).
- The $340 million cost of the project is based on 90 per cent probability of non-exceedance. BC Hydro's share of this cost would be $171 million. The in-service date of the project has been rescheduled from October 2004 to October 2005 to accommodate the anticipated Canadian regulatory process timeline.
- The U.S. federal regulatory approval process for the U.S. portion of the process is complete. In Canada, the oral public hearing on the project before the National Energy Board has been completed. The Joint Review Panel's (National Energy Board and Canadian Environmental Assessment Agency) recommendations are expected to be issued in the late spring and a final decision on the issue of a certificate is anticipated by fall 2003.

Power Smart Energy Savings

- The revitalized Power Smart program launched in fiscal 2002 completed its first full year, meeting its annual savings target through a combination of initiatives with residential, commercial and industrial customers. Power Smart continues implementing its comprehensive 10-year plan to reach an annual target of 3500 GW·h in new energy savings, or enough to supply 350 000 homes in British Columbia. This figure represents 35 per cent of Hydro's forecast load growth over the life of the plan.
- Implemented savings for the fiscal year 2003 totalled 388 GW·h:
  - 334 GW·h from business customers – examples include:
    - industrial sector (Slocan Forest Products Group, NorskeCanada, West Fraser Mills Ltd.)
    - institutional and government sectors (University of British Columbia, Canada Post, Ministry of Transportation, B.C. Buildings Corp., City of Vancouver, Insurance Corporation of B.C., Vancouver International Airport Authority, Greater Vancouver Regional District, B.C. Institute of Technology)

    - developers, property managers and retail sector (Pacific Centre Ltd., Fairmont Hotels & Resorts, Great West Life Realty, Canada Safeway, Overwaitea Foods)
    - manufacturing and high tech (Pacific Elevators, Canadian National Railway, Teal-Jones Group)
  - 54 GW.h from residential customers:
    - Compact Fluorescent Light Bulb promotion on Vancouver Island – 258 000 light bulbs to more than 129 000 households
    - Refrigerator Buy-Back on VI – more than 5000 refrigerators collected
    - school presentations – over 1100 presentations were made to 35 000 students
- Next year's goal is to achieve cumulative energy savings of 810 GW·h on the way to the overall goal of 3500 GW·h. Power Smart is expected to contribute 35 per cent of BC Hydro's forecast load growth of 10 000 GW·h over the next 10 years.
- Power Smart energy savings highlights:
  - By instituting strict energy management procedures and projects, the Langley School District achieved savings of $33,000 during the school year and an additional $90,000 during the summer shutdown.
  - The Vancouver International Airport Authority became the first Power Smart Certified customer in B.C. and has accumulated nearly $2 million in total electricity savings since 1996. The airport has committed to an aggressive target of a further 15 per cent reduction over the next five years.
  - A lighting retrofit at the Fairmont Chateau Whistler will save the hotel 1.9 GW·h annually. As a Power Smart Certified Partner, Fairmont Hotels have committed to reducing electricity consumption by 20 per cent or almost five GW·h.
  - UBC will save a further $600,000 in annual electricity costs by implementing the largest energy retrofit in Canadian history. To date, electricity savings have reached $600,000 through lighting upgrades at 50 buildings throughout the campus, reducing UBC's total annual electricity consumption by 11 per cent.
  - The Power Smart Traffic Light program, replaces traditional incandescent lights at traffic intersections with light emitting diodes (LEDs) that are 85 to 90 per cent more efficient. At fiscal year-end the program had 54 customers enrolled for a total of 2906 intersections.
  - Through the Power Smart seasonal light emitting diode (SLED) demonstration program, BC Hydro distributed 17 000 strings of energy-efficient Christmas lights to over 60 organizations for holiday lighting displays.

Resource Smart

- During fiscal 2003, 158 GW·h/year of new and restored energy was brought into service through the implementation of three Resource Smart projects:

	Energy	Cost
Peace Canyon GS Tailrace Restoration	49 GW·h	$2.3 million
Turbine Upgrade at Bridge River GS	28 GW·h	$5.1 million
Turbine Upgrade at G.M. Shrum GS	81 GW·h	$8.3 million

Customer-Based Generation

- BC Hydro is seeking 10- to 20-year agreements to supply new, competitively priced electricity from Customer-Based Generation (CBG). In response to the 2002 Call for Tenders, a total of seven bids were received by the deadline of March 14, 2003. Of these seven, a total of five projects were accepted by BC Hydro, representing a total of about 500 GW·h/year of generation. All of these projects must reach Commercial Operation Date (COD) by September 30, 2006.

Project	Description	Location	GW·h
Armstrong Wood Waste Cogeneration Plant	Wood residue	Armstrong	122.6
Eurocan Power Project	Wood residue	Kitimat	160.0
Lois Unit 1 Upgrade	Hydro	Powell River	10.4
Long Lake Project	Hydro	Stewart	83.2
SEEGEN Project	Municipal Solid Waste	Burnaby	125.0

Green Independent Power Producers

- From the 2001 Green call, BC Hydro has 22 signed EPAs totalling 930 GW·h. These IPP projects (18 of which are shown below, as four of the proponents have requested confidentiality), are in various stages of implementation:

Project Name	Location	Project Type	Capacity MW
Landfill Gas Cogeneration Utilization Project	Lower Mainland	Biogas	5.0
Revelstoke Community Energy Project	Revelstoke	Biomass	4.5
Raging River	Port Alice	Small hydro 1	.75
HPS Eagle Lake C2 Micro Hydro	West Vancouver	Small hydro	0.2
Brandywine Creek Project	Whistler	Small hydro	7.0
McNair Creek Project	Gibsons	Small hydro	5.0
Siwash Creek	Lytton	Small hydro	5.0
Mears Creek	Gold River	Small hydro	3.8
Tete Creek	Tete Jeune	Small hydro	2.4
McKelvie Creek Project	Tahsis	Small hydro	2.9
Furry Creek	Howe Sound	Small hydro	6.9
Fitzsimmons Creek	Whistler	Small hydro	3.4
Tsable River Small Hydro	Courtenay	Small hydro	4.5
Hystad Creek	Valemount	Small hydro	6.0
Pingston Creek Small Hydro	Revelstoke	Small hydro	30.0
Upper Mamquam River Small Hydro	Squamish	Small hydro	25.0
Rutherford Creek Small Hydro	Pemberton	Small hydro	50.0
Miller Creek Small Hydro	Pemberton	Small hydro	26.0

- BC Hydro issued another Green Power Generation Call in October 2002. By the deadline of December 16, 2002, a total of 70 proposed projects were submitted in a response for Request for Qualifications. The Qualification Statements were reviewed and 30 projects were pre-qualified to participate in the Call for Tenders process, representing a combined proposed capacity of 700 MW, leading to a combined annual output of approximately 3300 GW·h per year.

Project Name	Bidders	Location	Technology
100 Mile House Cogeneration Project	Ainsworth Lumber Co. Ltd.	100 Mile House	Biomass
Ashlu Creek Water Power Project	Ledcor Power Inc.	Squamish	Hydro
Bear Hydro Project	Regional Power Inc.	Sechelt	Hydro
Bear Lake Biomass Power Project	Greenbelt Renewable Energy Inc.	Bear Lake	Biomass
Berkey Creek Hydroelectric Generation Project	Princeton Energy Inc.	Hope	Hydro
Boston Bar Generating Station (Scuzzy Creek Hydro)	Boston Bar Limited Partnership	Boston Bar	Hydro
Brilliant Expansion Project	Brilliant Expansion Power Corporation	Castlegar	Hydro
China Creek Small Hydroelectric Project	Hupacasath First Nation	Port Alberni	Hydro
Cypress Creek Hydroelectric Project	Synex Energy Resources Ltd.	Gold River	Hydro
Enterprise Creek Power Project	Enterprise Creek Power Partnership	Silverton	Hydro
Forrest Kerr Run-of-River Hydroelectric Project	Coast Mountain Hydro Corp.	Stewart	Hydro
Hunter Creek Hydroelectric Generation Project	Princeton Energy Inc.	Hope	Hydro
Kookipi Creek Run-of-River Hydroelectric Project	Global Cogenix Ind. Corporation/EPCOR Power Development Corporation	Boston Bar	Hydro
Log Creek Run-of-River Hydroelectric Project	Cogenix Power Corporation/EPCOR Power Development Corporation	Boston Bar	Hydro
Lower Lillooet Green Energy Project	Cloudworks Energy LP	Tipella	Hydro
Lytton Cogeneration Project	Lytton Lumber Ltd.	Lytton	Biomass
Maxim Landfill Gas Cogeneration Project	Maxim Power (B.C.) Inc.	Delta	Biogas
Mkw'alts Creek	Cloudworks Energy LP	Mount Currie	Hydro
Moxley Creek Independent Power Plant	Plenk and Associates	Prince George	Hydro
Nanaimo Reservoir 1	Greater Nanaimo Water District	Nanaimo	Hydro
Palmerston/Mt. Brandes Wind Farm	Stothert Power Corp./Global Renewable Energy Partners Inc.	Holberg	Wind

Project Name	Bidders	Location	Technology
Pierce Creek Hydroelectric Generation Project	Larson Farms Inc. No. 593815	Chilliwack	Biomass
Port McNeil Power Project	Northland Power Inc.	Port McNeil	Biomass
Ryan River Hydro Project	Ryan River Joint Venture	Pemberton	Hydro
South East Kelowna Irrigation District/ Pressure Reducing Valve 1K	South East Kelowna Irrigation District	Kelowna	Hydro
Sigurd Creek Water Power Project	Ledcor Power Inc.	Squamish	Hydro
South Cranberry Creek Power Project	Advanced Energy Systems 1 Limited Partnership	Revelstoke	Hydro
Spuzzum Creek Power Project	Interpac Resources Ltd.	Boston Bar	Hydro
Ucona River Hydro Project	Pacific Rim Power Corp.	Gold River	Hydro

Alternative Energy

Wind

- The submission of three commercial wind energy project proposals to BC Hydro's current Green Power Generation call indicates that the private sector is advancing wind energy development in B.C. As a result, BC Hydro exited the Vancouver Island Green Energy Demonstration Wind Project, as this eliminates the need for the corporation to participate in a wind demonstration project. This is also consistent with the objective of our Resource Acquisition programs that new supply be acquired at or below 5.5 cents per kW·h without Hydro investment.

- BC Hydro will continue to support the wind monitoring program through our 15 wind monitoring installations in nine locations throughout the province. To date, $1.29 million has been spent on this activity. BC Hydro is currently assessing the commercial value of the information collected and the terms under which it could be made available to the private sector.

Wave

- BC Hydro has exited the Vancouver Island Demonstration Project Memoranda of Understanding with ocean wave energy developers Energetech Australia Pty Limited and Ocean Power Delivery Limited, to jointly develop two small-scale wave energy projects near Ucluelet. BC Hydro will continue wave monitoring for one year at the Ucluelet location and will make the data publicly available. We will also continue to monitor and measure the progress of wave energy technology and energy installations worldwide. We look forward to the day when wave energy is commercial and can compete in our private sector energy calls.

Small/Micro Hydro

- BC Hydro will continue with the small/micro hydro component of the Vancouver Island Demonstration project in 2003, by shadowing the development processes being undertaken by independent power producer Synex Energy Resources Ltd. This will allow us to test and expand our *Handbook for Developing Micro Hydro in British Columbia* and our inventory of Undeveloped Opportunities at Potential Micro Hydro Sites in B.C., to make this document an increasingly useful tool for future private sector developers.

Green Power Certificates

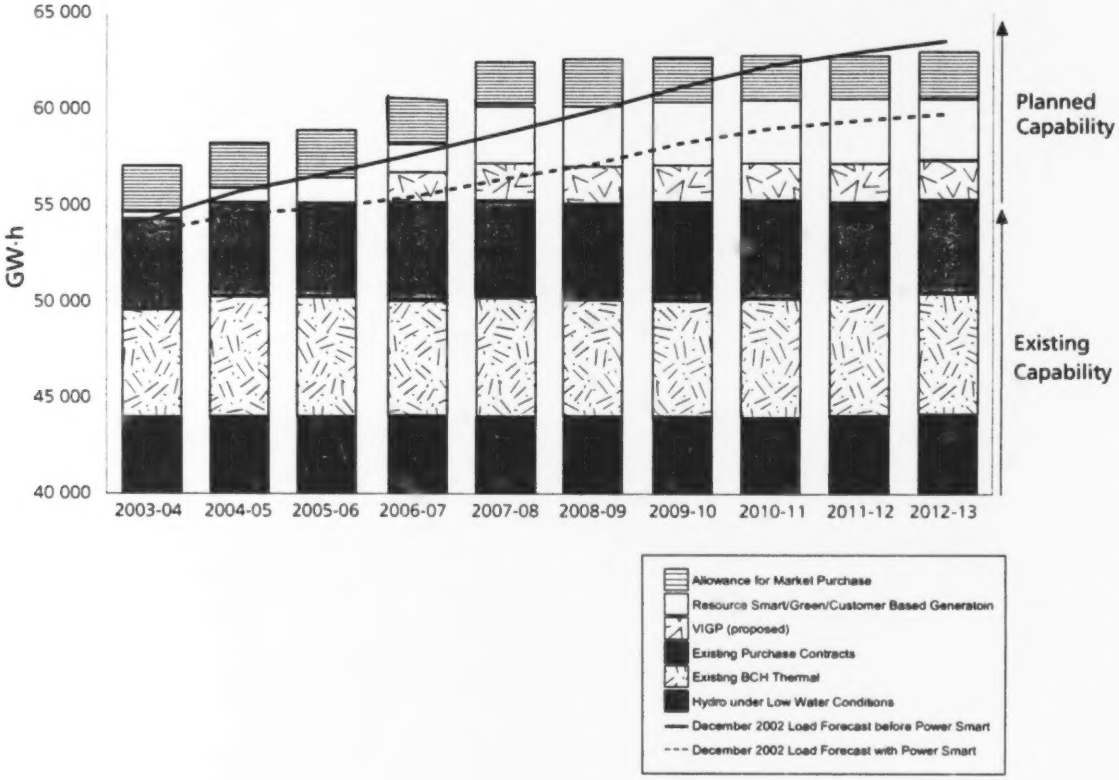
- In September 2002 BC Hydro launched a pilot to see if market demand could be created for a premium, green power product. Phase One of the pilot, which focused on Hydro's business customers and Powerex's trade customers, has resulted in sales of 32,155 Green Power Certificates (GPCs) for periods extending until December 31, 2006. Each certificate represents one megawatt hour of green generation on BC Hydro's grid and sells domestically for $20. We began delivering the first GPCs on January 1, 2003. Phase Two of the pilot is now underway, with promotion continuing to March 31, 2004. Domestic Green Power Certificate purchasers include:
  - B.C. Buildings Corporation
  - BC Hydro Hydrogen Program
  - Busby & Associates Architects
  - Canada Place Corporation
  - Canadian Autoparts Toyota Inc.
  - CN IMAX Theatre
  - Capital Regional District Building Services Group
  - Coast Capital Savings
  - Corporation of the City of White Rock
  - Earthsource Cooling Operations
  - ESCO Limited
  - Fisheries and Oceans Canada
  - Flagel Lewandowski Ltd.
  - Greater Vancouver Regional District
  - Keen Engineering
  - Kicking Horse Mountain Resort
  - Langara College
  - Leonardo Academy
  - Malaspina University-College
  - Manufacturers Life Insurance Company
  - Ministry of Water, Land & Air Protection
  - Ocean Pacific Management
  - Prism Engineering Ltd.
  - Resort Municipality of Whistler
  - Royal Roads University
  - Simon Fraser University
  - University of British Columbia
  - University of Victoria
  - Vancouver 2010 Bid Corporation
  - Vancouver City Savings Credit Union
  - Vancouver Convention & Exhibition Centre
  - Vancouver Port Authority

LOAD RESOURCE BALANCE

- BC Hydro plans and operates its system to ensure that it meets the electricity needs of customers both now and for the future. The goal is to make sure there is enough electricity supply to meet the "load" (or electricity demand) by using a range of existing and future resources. These resources – and their relative contributions to the BC Hydro system – are shown in the following charts. These charts reflect the capability of the resources in BC Hydro's supply portfolio rather than expected generation. In BC Hydro's annual planning cycle these charts are typically updated during the second half of the fiscal year.

System Firm Energy and Capacity Supply-Demand Balances

- The System Firm Energy Supply-Demand Balance chart below compares annual energy demand, with and without the impact of Power Smart, the energy capability of existing and planned new facilities.



Assumptions

- Updated December 2002 Probable Forecast shown with and without Power Smart programs.

Existing Capabilities

- "Hydro under low water conditions" is based on:
  - Lowest historical streamflow conditions.
  - Full use of storage capability of the major reservoirs.
  - Includes contribution from Arrow Lakes Hydro (formerly Keenleyside).

"Existing BC Hydro Thermal"

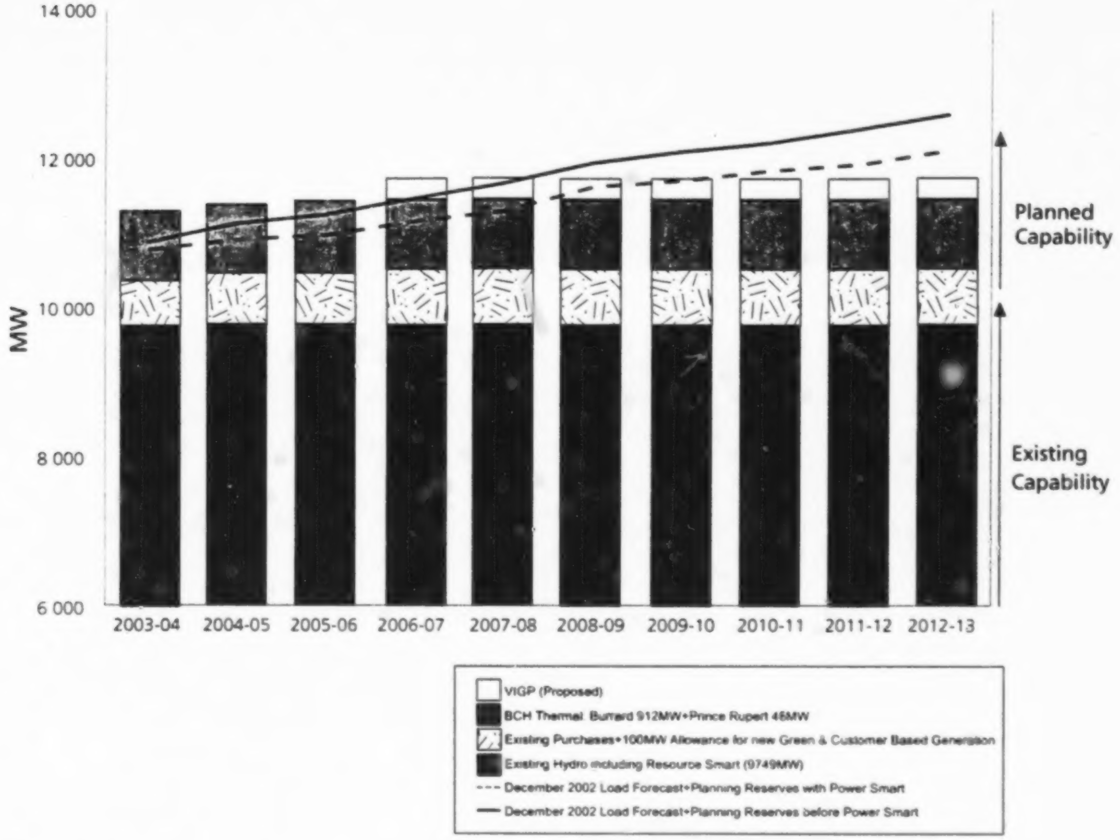
- Includes Burrard Generating Station and Prince Rupert Generating Station:
  - The capability of thermal resources is not affected by streamflow conditions; rather, it is primarily related to the installed capacity, the availability of fuel and the requirements for maintenance and forced outages. However, the actual dispatch of thermal resources is significantly impacted by streamflow conditions and by fluctuations in electricity and fuel prices.

"Existing Purchase Contracts" includes:

- Pre–2002 IPP contracts
- Alcan
- VIGP is the 265 MW proposed Vancouver Island Generation Project at Duke Point. The spring/summer of 2006 is the in-service date for the VIGP.
- "Resource Smart/Green/Customer-Based Generation" includes the expected contribution of additional Resource Smart opportunities to make improvements at existing BC Hydro facilities and the expected contribution from recent Green and Customer-Based Generation calls.
- Allowance for Market Purchase: In the planning for new resources, BC Hydro allows for reliance on resources available from the wholesale market.

SYSTEM DEPENDABLE CAPACITY SUPPLY-DEMAND BALANCE

- The System Dependable Capacity Supply-Demand chart compares the forecast peak electricity demand (peak winter usage) with and without the impact of Power Smart – plus required capacity reserves – against the dependable capacity of existing and planned facilities.

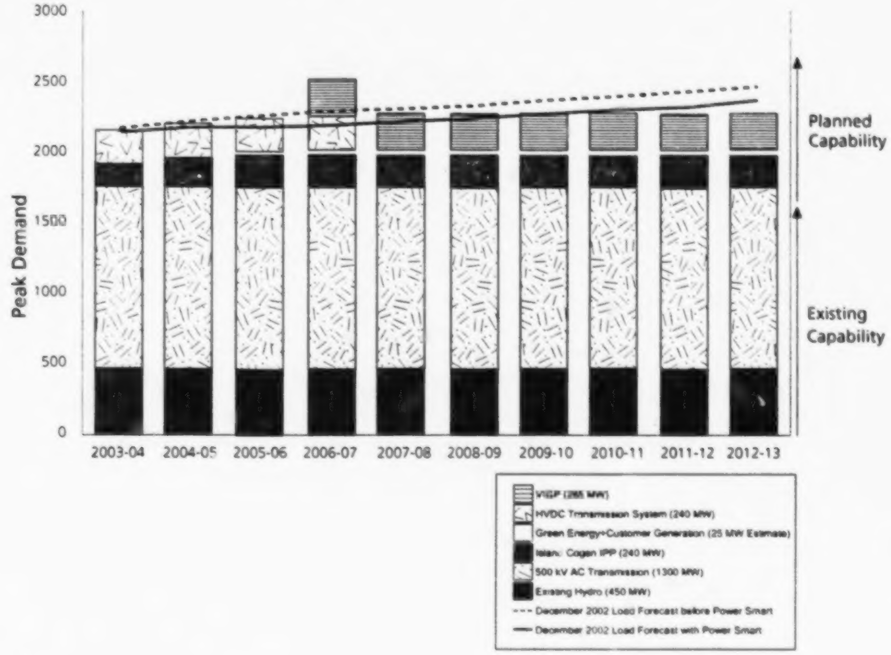


Assumptions

- Updated December 2002 Probable Forecast plus reserves shown with and without Power Smart programs.
- Capacity and Planning Reserves: BC Hydro is obligated to maintain operating reserves set by the Western Electricity Coordinating Council (WECC). For the BC Hydro system this is about 7–8 per cent of load. In addition, the WECC recommends that each utility carry sufficient capacity reserves to allow it to withstand the temporary outages of generating units. Based on loss-of-load analysis, for the BC Hydro system this criterion can be met by maintaining capacity reserves of approximately 14 per cent of dependable capacity supply. Since BC Hydro is interconnected with other systems, up to 400 MW of capacity from imports is assumed available.
- The Forecast + Reserves – Power Smart represents planning estimates of reduction in peak demand as a result of Power Smart.
- For Green Energy and Customer-Based Generation, a 100 MW contribution of dependable capacity is assumed but is subject to verification depending on the ability of the selected projects to provide capacity to meet system peak requirements with a high degree of confidence

VANCOUVER ISLAND DEPENDABLE CAPACITY SUPPLY-DEMAND BALANCE

- Separate information is provided for Vancouver Island (VI) because that is where BC Hydro's customers are most urgently in need of new electricity generating resources for capacity. "Reliability Planning Criteria" are such that the system should be able to withstand the loss of any single element with no loss of customer load. Therefore, VI firm supply is planned with the largest element – one alternating current (ac) cable circuit – unavailable.



Assumptions

- Updated December 2002 Probable forecast shown with and without the estimated impact of Power Smart. Transmission losses have also been included.
- "Dependable Winter Capacity" of the existing VI hydroelectric system is 450 MW (for three hours). Because of the limited storage capacity of the VI hydroelectric plants, 450 MW for three hours is the maximum sustainable peak per day during the winter peak period.
- "Continuous Rating" of the 500 kV ac cables is 1200 MW. This is the largest or worst single contingency system condition for Vancouver Island. The single contingency firm power transfer capacity for these circuits is the two-hour rating of 1300 MW.
- "HVDC" is the high-voltage direct current submarine cable system to Vancouver Island. Due to its deteriorating condition, its remaining firm (dependable) delivery capability is 240 MW, with expected retirement in 2007.
- The Island Cogeneration Plant (ICP) is expected to provide BC Hydro with up to 240 megawatts (MW) of dependable generating capacity by 2005.
- The fall of 2005 is the target in-service date for the Georgia Strait Crossing pipeline to Vancouver Island. The spring/summer of 2006 is the in-service date for the Vancouver Island Generation Project.
- For Green Energy and Customer-Based Generation, a 25 MW contribution of dependable capacity is assumed but is subject to verification depending on the ability of the selected projects to provide capacity to meet system peak requirements with a high degree of confidence.

FINANCIAL HIGHLIGHTS

	2003 Actual	2003 Plan	% Change
External revenues	2,366	2,323	2%
Inter-segment revenues	–	–	–
Net income before RSA transfer	82	64	28%
Net income (loss)	150	69	117%
Capital expenditures:			
Sustaining	110	127	13%
Growth	121	121	–
Demand-side management	45	95	53%

- Because Distribution was formed as a Line of Business for the first time in fiscal 2003, there was no financial data from fiscal 2002 for comparative purposes.
- External revenues were $43 million (two per cent) higher than Plan, mainly due to unexpected increases in sales to pulp and paper mills, chemical producers and mines.
- Net Income exceeded Plan by $81 million (117 per cent), mainly due to a higher than planned Rate Stabilization Transfer of $61 million. The margin on energy sold (revenues net of energy costs) was also $18 million higher than Plan.
- Sustaining Capital was $17 million (13 per cent) under Plan due to work delays on major IT projects and overhead improvements.
- Deferred Capital spending on DSM programs was under Plan due to a difference in the method of recognizing expenditures relating to incentives and rebates. Expenditures related to incentives and rebates are recognized when projects are complete and most payments made. The Plan assumed that expenditures would be recognized when committed.

ENVIRONMENTAL HIGHLIGHTS

- In 2002 Distribution completed and implemented a four-year project to develop an environmental management system (EMS) conforming to the internationally recognized standard, ISO 14001. The system establishes explicit environmental responsibilities and procedures for managers, personnel and contractors to use in planning and doing all work in an environmentally sound way.
- Distribution experienced 79 incidents in 2002, of which 11 were considered both reportable to agencies and preventable by BC Hydro. These incidents are summarized on the table that follows. To assess potential areas for improvement, BC Hydro encourages the reporting of **all** apparent incidents, no matter how small. An incident is judged *reportable* if a regulatory reporting standard has been reached or exceeded. An incident is judged *preventable* if it could have been avoided by adherence to documented procedures or other reasonable and prudent work practices.

Summary of Environmental Compliance Incidents in Distribution

(Sorted by similarity of cause)

Location	Incident type	Cause/mode	Description of incident	Response and status	Key outcomes
Transformer failures release oil above reporting threshold					
Vancouver	Spill	Transformer failure	Overloaded transformer failed releasing about 5 L insulating oil to environment	Spill response procedures; site cleaned up	Launched program to identify and replace overloaded 5–15 kVa transformers in Lower Mainland and Victoria
Vancouver	Spill	Transformer failure	Overloaded transformer failed releasing about 25 L insulating oil to environment	Spill response procedures; site cleaned up	Launched program to identify and replace overloaded 5–15 kVa transformers in Lower Mainland and Victoria
Vancouver	Spill	Transformer failure	Overloaded transformer failed releasing about 10 L insulating oil to environment	Spill response procedures; site cleaned up	Launched program to identify and replace overloaded 5–15 kVa transformers in Lower Mainland and Victoria
Pole failures release oil above reporting threshold					
Vernon	Spill	Pole failure	Pole on customer land was not shown in database, did not receive treatment. About 10 L insulating oil escaped to environment.	Spill response procedures; site cleaned up	During work field crews instructed to treat and add to database all newly identified D poles. Review procedures for acquiring poles from other owners
Duncan	Spill	Pole failure	Pole not shown in database, did not receive treatment. Poles failed in wind: about 100 L insulating oil escaped into pond	Spill response procedures; site cleaned up	During work field crews instructed to treat and add to database all newly identified D poles.

Location	Incident type	Cause/mode	Description of incident	Response and status	Key outcomes
Crews (Hydro or contractors) make errors moving or working on equipment in Hydro yards					
Fort Nelson	Spill	Human error	Disassembly of equipment released about 60 L of coolant to ground	Spill response procedures; site cleaned up	
Surrey	Spill	Human error	Bushing broke during unloading, releasing oil to pavement	Spill response procedures; site cleaned up	Review oil containment and stormwater control options in yard
Field crews (Hydro or contractors) not aware of all environmental requirements of job					
Vancouver Island	Spill	Human error	Excavator for new service pulled hidden cable from bushing. About 90-100 L insulating oil escaped to environment.	Spill response procedures; site cleaned up	
Field crews (Hydro or contractors) not aware of all environmental requirements of job					
Belcarra	Pesticide	Human error	Contractor not aware of residential wells. Inserted preservative into nearby standing wood poles	Root cause analysis completed. Environmental studies completed and submitted to regulators. Incident closed.	Additional responsibilities for pole treatments formally documented. Detailed procedures implemented for work in sensitive areas.
Coquihalla	Vegetation	Human error	Contractor who was not aware of special site requirements; cleared alder from 36m by 10m area near river	Restoration plan agreed with regulator. Site has been restored. Incident closed	Develop training program for Managing Riparian Vegetation.
Squamish	Vegetation	Human error	Contractor working for customer cleared for line extension near small creek and ditches	Restoration plan agreed with regulator. Site has been restored. Root cause analysis in progress	To be determined based on root cause analysis recommendations

Release of Ozone-Depleting Substances

	2002	2001	2000	1999	1998	1997
Number of Incidents	0	3	2	4	0	1
Mass released (kg)	0	254	28	79.27	0	32
CFC-11 equivalent kg	0	2092.5	1.5	275.6	0	318

BC Hydro had no reported releases of ozone-depleting substances (ODS) in 2002. ODS are regulated provincially and federally and will eventually be phased out. While existing inventory has been decreasing, BC Hydro still uses ODS as air conditioner refrigerants (Freons) and fire-extinguishing agents (Halons). As reported last year, the large increase recorded in 2001 was due to a single incident in which 200 kg of Halon-1301 fire-extinguishing agent accidentally discharged while the system was being decommissioned. Halons have up to ten times the ozone-depleting potential of standard CFC-11 refrigerant.

- Distribution continues its longstanding programs to reduce pollution and hazardous materials left from past practices, notably fuel spills at remote generating sites and PCB contamination remaining in older transformers. Waste and Hazardous Materials Management activities included:
  - Distribution assessed the presence or extent of contaminated soil at the sites of four active or former diesel generating stations.
  - A plant was commissioned at the Anahim Lake Diesel Generating Station to capture and treat groundwater and prevent impacts on a nearby creek.
  - BC Hydro operated a diesel generating station at Tofino airport until the early 1970s. In 2002, in partnership with Transport Canada, contaminated soil was removed to bring the site up to provincial standards.
  - In 2002 all transformers on the Gulf Islands were tested for PCB contamination and any units exceeding the regulatory definition of 50 ppm were replaced with new transformers.
  - Distribution also provides waste reduction services for non-hazardous materials to all of BC Hydro's business units. The Materials Management Business Unit recycled approximately 2791 tonnes of material, including 1454 tonnes of scrap metal, 595 tonnes of ceramic insulators, 303 tonnes of paper, 60 tonnes of cardboard, and smaller quantities of fluorescent tubes, batteries and other materials.

Social Highlights

- BC Hydro implemented a comprehensive 10-year maintenance program for its distribution system based on best industry practices and four key drivers: safety, reliability, environment and asset management. Some of the major maintenance work completed last year included replacement of 5500 poles and over 1000 crossarms that had reached the end of their life, as well as the testing and treatment of 76 000 poles.
- BC Hydro is working with the Surrey Crime Prevention Society to remove graffiti from BC Hydro property. The Society removes graffiti from BC Hydro property, specifically BC Hydro distribution equipment, located in the City of Surrey. BC Hydro is finalizing an agreement with the Society outlining each party's contribution.
- In terms of employee safety, a target of 10 per cent improvement was established related to Disabling and Medical Aid injuries, which translates to reducing injuries by one incident. Nine incidents occurred, the same number as last year. The All Injury Frequency measure improved, however, given the addition of work hours to Distribution. Incident reduction remains an area of focus for fiscal 2004.

- BC Hydro measures the effectiveness of External Safety Program Communications and the degree to which external safety communications are heard and understood by the public. This is measured by a survey of the unaided recall of the 7 Steps to Electrical Safety message by the target audience (men, aged 18–35 working in high-risk occupations). The fiscal 2003 results remain largely unchanged at 43 per cent of public awareness of BC Hydro's safety advertising.

	Actual	Target
02/03	**43%**	25%
01/02	45%	25%

- Public accidents involving BC Hydro showed a slight increase this year to 1019 from 1003. This figure includes any public incidents that involve the BC Hydro system, causing damage to poles, lines or other infrastructure, excluding vehicle accidents. The following examples are typical of the kinds of public accidents and incidents that involve Distribution:
  - On May 8, 2002 a City of Prince George truck was cleaning out catch basins in the street. The high boom caught the Telus cable, pulling the tap pole over (but not breaking it), causing excess sag in the line. A linecrew was dispatched and straightened the pole.
  - In Parksville, on June 14, 2002, a backhoe contractor dug up one phase of two direct buried cables. The contractor and the engineering firm had been supplied with all available drawings and verbally reminded of the need to hand dig to identify the location of the facilities. The fuse blew at the terminal pole.
  - On July 5, 2002 a customer in Coquitlam cut down a tree which fell onto the 25 kV single line feeding his home. The tree ended up resting on the 25 kV single-phase line, with the centre of the tree contacting the ground and the butt elevated. The customer then decided to cut 10 feet off of the butt. When he made the cut, he felt a shock and realized the line was still energized. Hydro was called in and removed the tree. The customer was taken to hospital for treatment and is doing fine to date.
- BC Hydro delivered over 700 safety-related presentations to over 44 000 program participants, including elementary schools, construction workers, and emergency response personnel. Through the Power Smart Vancouver Island Program, over 1100 presentations were delivered to over 35 000 students on Vancouver Island to educate students on the long-term social, environmental and economic benefits of energy conservation. In addition, Power Smart Students, a two-year work experience program, was initiated in 15 School Districts across the province. Other efforts included awarding $1,000 Power Smart scholarships to 25 students.
- Distribution continued with its efforts to mitigate against its retirement risk over the next two to five years. Five technical trainees were successfully hired in accordance with the Plan. An initial size-up of leadership benchstrength and critical positions within Distribution was also undertaken. Building benchstrength and risk mitigation will be a focus in fiscal 2004.

Fiscal 2004 Objectives

1. **To Successfully Implement the BC Energy Plan as it Relates to the Distribution LoB:**

- operate Distribution as a separate Line of Business from Generation
- implement and manage the Heritage contract to preserve the benefits of BC Hydro's existing generation and electricity trade for Distribution customers
- develop new rates such that large electricity consumers will:
  - be able to choose a supplier other than Distribution
  - receive better price signals for conservation and efficiency
- maintain high reliability and energy security without eroding customer satisfaction
- acquire and manage new supply on a least-cost basis, with regulatory oversight by the BCUC, including:
  - demonstrating that VIGP is the most cost-effective means to reliably meet Island power needs
  - having the private sector develop new electricity generation
  - pursue a voluntary goal to acquire 50 per cent of new supply from B.C. Clean Electricity over the next 10 years
- respond to changes to the *Energy Efficiency Act* and the *Utilities Commission Act* to invest in conservation and energy efficiency
- outsource delivery of services where costs can be reduced for electricity customers while maintaining quality of service

2. **Reliability** – review reliability from a customer perspective.

3. **Integrated Electricity Plan (IEP)** – undertake and complete a new Integrated Electricity Plan.

ENGINEERING SERVICES

Fiscal 2004 Estimates

Employees (FTEs)	Capital Replacement Value * ($ Millions)	Capital Expenditures ($ Millions)
635	$5	$2

* Capital replacement value is an estimate of the replacement cost of depreciable assets, which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

Overview

- Engineering provides project management, maintenance, emergency response, design, contracts and construction management services to BC Hydro's Generation, Transmission and Distribution lines of business and selected external clients. These will include the BC Transmission Corporation when it is formed. Engineering is a full cost recovery centre and Plan net income is zero. Fiscal 2003 activities have focused on the delivery of engineering services within scope, schedule budget and with appropriate quality. Through the broad scope of its services, Engineering contributes fully to triple bottom line objectives of financial, environmental and social performance.

Benchmarking

- Engineering is continuing with an initiative to develop metrics that can be used to compare its performance with first-quartile engineering service providers. An independent engineering consulting firm was retained to carry out a comparison of Engineering work practices, to private sector practices, and provide benchmarking data. Performance benchmarks were identified for Engineering and have been used to develop targets for fiscal 2004.

- Progress to date, in support of moving to first-quartile performance includes: reduced average hourly rate and reduced number of management positions and indirect labour. In addition, utilization, defined as the ratio of direct labour to net revenue, increased from 56 per cent (third quartile) to 61 per cent (second quartile), primarily due to an increase in billable hours.

Key Metrics

- Engineering measures its performance using metrics aligned to its key strategic elements of financial performance, client focus, streamline its business and entrepreneurial team, as summarized below.

Metric	f2003 Plan	f2003 Actual	f2004 Plan
Average Hourly Rate ($/hour)	103	99	97
Utilization (billable hrs/available hrs)	75%	81%	82%
Billable Hours (1000s)	808	805	837
Net Income ($M)	0.0	3.1	0.0
Client Feedback Rating (max 7)	5.0	5.4	5.5
Employee Potential Rating (max 5)	3.4	3.5	3.8
Safety–All Injury Frequency	1.25	0.7	TBD

Financial Highlights

- Engineering provided project management, design, procurement and construction management services for the Seven Mile Unit 4 project. Work on this new turbine-generator was accelerated by 10.5 months and was completed under budget. The advanced in-service date of April 2003 will provide an estimated net benefit of $11 million due to reduced spilling during the 2003 freshet, and preferential loading of the newer, more efficient unit.

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- The turbine runner replacements were completed at G.M. Shrum (Unit G7) and Bridge River (Units 1 & 4) plants, providing energy gains of 81 and 28 GW·h, respectively. The G.M. Shrum G7 turbine efficiency tests confirmed an average efficiency of 95.8 per cent, which is one of the highest in the BC Hydro system.
- Peace Canyon tailrace improvements were finished, resulting in an estimated annual increase in generation of 49 GW·h.

Environmental Highlights

- Engineering carried out significant habitat enhancement in Burnaby Lake Park as part of the replacement of 230 kV transmission cables between Hill Ave Terminal and Newell Substation. This work was part of an overall improvement of reliability of service in Burnaby. Enhancement activities included replacement of 10 culverts with fish-friendly culverts, construction of a fishway channel, construction of a fish-rearing pond, and planting of trees, shrubs and grass to restore areas impacted by construction.
- Independent Power Producers (IPPs) were connected into the integrated distribution system in support of both the Customer-Based Generation and Green Energy programs. Some of these include Ballard Power Systems, Eagle Lake Reservoir, Furry Creek, GVRD Lulu Island, Hystad Creek, Miller Creek, Pingston, Raging River Hydro and St. Mary's Hospital.
- A new online tool was developed to assist BC Hydro and BCTC managers identify and document completion of their ISO 14001 EMS responsibilities. Managers involved will complete plans for meeting their responsibilities in April each year and report progress against their plans each quarter.

Social Highlights

- Engineering provided technical input to First Nations discussions at Seton Generating Station, and elsewhere for Water Use Planning projects.
- Decommissioning of Coursier Dam progressed through environmental assessment. Final design is on schedule for decommissioning in 2003, if approved by BC Hydro.
- Emergency engineering support was provided to assist with the repair of the three towers on transmission line 5L32 destroyed by a mudslide on December 12, 2002. The work included project management, hazard assessments, detailed design of the repairs, material coordination and daily inspection of hazards to the work site and the adjacent line 5L30. This work increased the security of supply to Vancouver Island.
- Two new substations were placed into service to address load growth and power quality issues in the Lower Mainland. Nicomekl reinforces the South Surrey area and Chilliwack addresses new demand in Fraser Valley East.
- The Granville Island underground distribution system replacement project was completed. The project highlighted rapid response by Distribution, Engineering and Field Services, which restored supply reliability to the Island's businesses. Work was expedited over the winter off-season to minimize disruptions to businesses and visitors.
- Firm supply to Quadra Island was restored by replacing the second source of supply from Vancouver Island (Circuit 25F52 submarine cable). Failure to do so would have subjected the Island's customers to an unacceptably long outage in the event that the overhead source of supply failed.
- Ten Engineers-in-Training and eight Graduate Technologists-in-Training were recruited as part of a strategic workforce plan to address Engineering's retirement risk.

Fiscal 2004 Objectives

1. Financial Performance:

- Monitor results through weekly tracking summary and monthly statements.
- Benchmark against first-quartile companies.

2. Client Focus:

- Ensure continued delivery of projects on time and on budget.
- Relationship building.
- Focus on internal clients.

3. Streamline the Business:

- Demonstrate increased value for reduced costs.
- Determine appropriate mix of specialized and commodity engineering services.
- Increase efficiency and productivity.
- Better define products and services.

4. Entrepreneurial Team:

- Foster an "Innovation Culture" within Engineering.
- Develop a marketing culture.
- Increase business skills and knowledge.

FIELD SERVICES

Fiscal 2004 Estimates

Employees (FTEs)	Capital Replacement Value * ($ Millions)	Capital Expenditures ($ Millions)
1525	$210	$25

* Capital replacement value is an estimate of the replacement cost of depreciable assets, which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

Overview

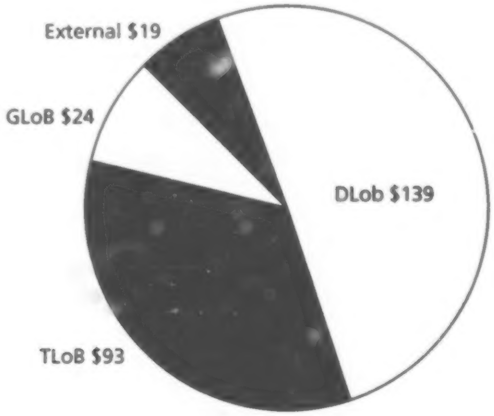
- Field Services, through its own workforce and the Contractors that it administers, provide Service Restoration, Maintenance, Construction (Civil, Electrical and Mechanical), Telecommunications Maintenance, Public Safety, Fleet and Vegetation services to the three BC Hydro Lines of Business – Transmission, Distribution and Generation. In addition, third-party work is performed primarily for Industrial customers and reflects niche or specialty work that is not performed at the expense of external Contractor workforces.
- Field Services' vision is to become a commercially focused service organization with three key strategies for moving to the future:
  1. Safety First
  2. Continuous Improvement
  3. Service Provider Plus

Benchmarking

- Safety – During fiscal 2003, Field Services made very significant improvement in its Safety measure of All Injury Frequency (number of disabling injuries and medical aids per 200 000 hours worked) and has made a significant contribution to the total BC Hydro first quartile All Injury Frequency of 2.7.
- Cost – The service charges that flow from Field Services are significant cost drivers for its LoB clients and directly influence some of their key performance indicators. In this regard, Field Service is a significant contributor to:
  - High first-quartile performance in DLoB for Distribution Line Expenditures per Customer and Operating & Maintenance Expenses per Customer.
  - High second-quartile performance in TLoB with respect to Substation Operating & Maintenance Expenses per Substation MV.A (megavolt ampere).

Financial Highlights

- Field Services has been created as a cost recovery business unit within BC Hydro and recoveries for fiscal 2003 have marginally exceeded costs by approximately one per cent. As a result, $2.5 million was returned to LoB clients and Net Income for the year was zero as planned.



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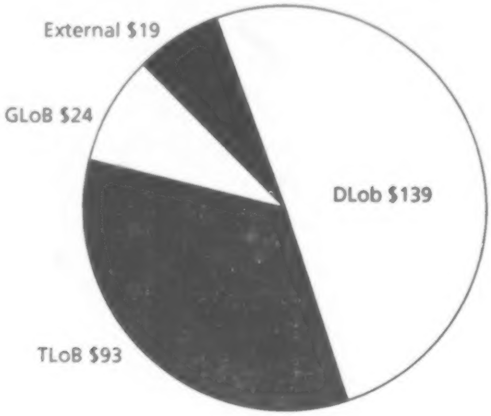


- Field Services recoveries were $275 million compared with a Plan of $241 million.

- Recoveries reflect services provided to our internal LoB clients as well as third-party customers who are external to BC Hydro. All planned work for fiscal 2003 was completed and the higher-than-Plan recoveries are mainly related to increased external Contractor work associated with increases in economic activity (for example, net new customer additions were 13 per cent above Plan) and increased customer restoration work.

- Internal recoveries account for 93 per cent of the total recoveries. Approximately 57 per cent of these recoveries are derived from the regular BC Hydro workforce with the remaining 43 per cent from the contingent workforces (that is, temporary employees and contractor workforces).

- Regular workforce chargeable hours tracked near Plan levels, with 1 260 000 chargeable hours billed. The chargeable hours utilization (total number of chargeable hours divided by the total number of hours available) is approximately 80 per cent. Under current billing practices, management, supervisory and administrative time (this represents about 30 per cent of the total Field Services internal available hours) is not billed separately to customers but is factored into the chargeable hourly rate. Contingent workforce usage remains above Plan levels.

Environmental Highlights

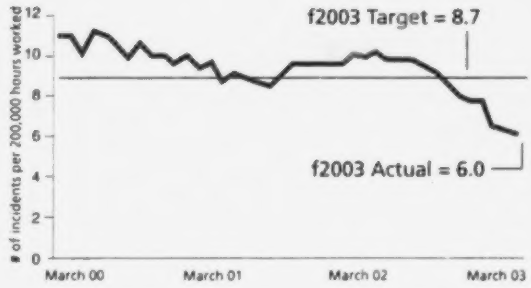
- The Field Services Environmental Management System (EMS) was implemented.

- Field Services participated in 29 Operational Environmental Reviews (OERs) with no major non-conformances.

- A course was sponsored to provide First Nations people with the training and certification to apply herbicides.

Social Highlights

- Field Services' top priority for fiscal 2003 was improved safety performance. During fiscal 2003, 49 fewer people were hurt on the job and the number of disabling injuries decreased by 52 per cent from 67 in fiscal 2002 to 32 this year. This translates into an All Injury Frequency (AIF) of 6.0 (as compared with an AIF of 10.1 at the end of March 2002).



- In addition, delivery of public safety programs for first responders and schools continued throughout the province in an effort to reduce the risk of public incidents. This year's public safety program delivery included 209 presentations to 3600 first responders and industrial workers. The school program completed 400 presentations to a total of 1500 classrooms for an attendance total of 39 000 Grade 4 and 5 students.

- Trainees within the Field Services workforce account for approximately eight per cent of the Field Services regular workforce. Through the Strategic Workforce Planning initiative, Field Services hired 35 new trade apprentice and managerial positions in fiscal 2003. An additional 34 positions are planned to be filled in fiscal 2004 with a focus on Power Line Technician (PLT) positions.

- A new pre-apprenticeship program for PLTs was sponsored by Kwantlen University College/ Electrical Industry Training Institute (EITI) and commenced in February 2003.

- Multiple storm-related/landslide outages occurred in the Prince Rupert and more remote Port Simpson/Kitkatla areas this fall. Field Services worked through extremely adverse conditions to return service to these customers as quickly as possible and have assisted in the provision of emergency power to assist critical loads. Installation of a temporary diesel generator to provide short-term emergency back-up power to Port Simpson was coordinated through Field Services. Service restoration was accomplished with a workforce mix of approximately 140 personnel. This mix included Regular Field Services crews and Contingent forces from the Field Services Construction Business Unit, local Line Contractors and slashing crews from Port Simpson.
- In December a landslide in the vicinity of Sechelt Creek on the Sunshine Coast of B.C. destroyed or damaged six 500 kV towers on circuit 5L32 and forced the line out of service. Circuit 5L32 is one of the two 500 kV circuits supplying Vancouver Island. The second circuit (5L30), which carried the load while repairs were being made to 5L32, also suffered a weather-related incident on December 26. Severe icing resulted in a power outage for approximately 300 000 people on portions of Vancouver Island and the Sunshine Coast. Power was restored to the majority of customers within 90 minutes.
- Severe windstorms throughout the province resulted in numerous significant customer outages during the year. One such storm occurred in the Lower Mainland and Vancouver Island on Christmas Day. Approximately 90 per cent of the customers impacted had power restored within 10 –12 hours with 100 per cent restoration within 48 hours.

Fiscal 2004 Objectives

1. Skilled Workforce, Safe Workplace

- sustaining/improving Field Services safety performance with a minimum five per cent annual improvement in AIF over fiscal 2003.
- targeting for the ultimate goal of "Zero Incidents".
- renewing the workforce through Strategic Workforce Planning.
- identifying effective training programs.

2. Strong Financial Performance

- continuing with various improvement initiatives that optimize resource utilization, capture cost efficiencies and reduce the hourly charge-out rate.
- focusing on higher value-added work while utilizing contingent workforces for the lower value-added work.
- increasing the flexibility in the regular/contingent workforce mix.
- improving overall business awareness and defining the products, services, revenues and costs.

3. Quality Service

- providing the products and services that clients need.
- meeting client service and quality expectations.
- maintaining or improving customer satisfaction levels.
- providing consultative services as electrical system subject matter experts.

4. Good Environmental and Social Performance

- reducing environmental impacts and the number of environmental incidents.
- continuing to act as a face to the customer in all communities served by BC Hydro.

SHARED SERVICES

Fiscal 2004 Estimates

- There are no estimates for Shared Services because the functions and staff were outsourced as of April 1, 2003 to Accenture Business Services of British Columbia (ABS).

Overview

- During the 2003 fiscal year, the Shared Services organization within BC Hydro provided a range of products and services that included Customer Services, Information Technology, Financial Systems and Disbursement Services, Building and Office Services, Supply Chain, and Human Resource Services.
- On April 1, 2003 the Shared Services functions and approximately 1600 employees were outsourced to ABS under a contract for services. Orientation workshops we held for managers and employees in preparation for Day One on April 1, 2003. A transition plan/process between BC Hydro, Accenture Business Services and Accenture is in place and will continue for six months.

Benchmarking – Customer Care / Highlights

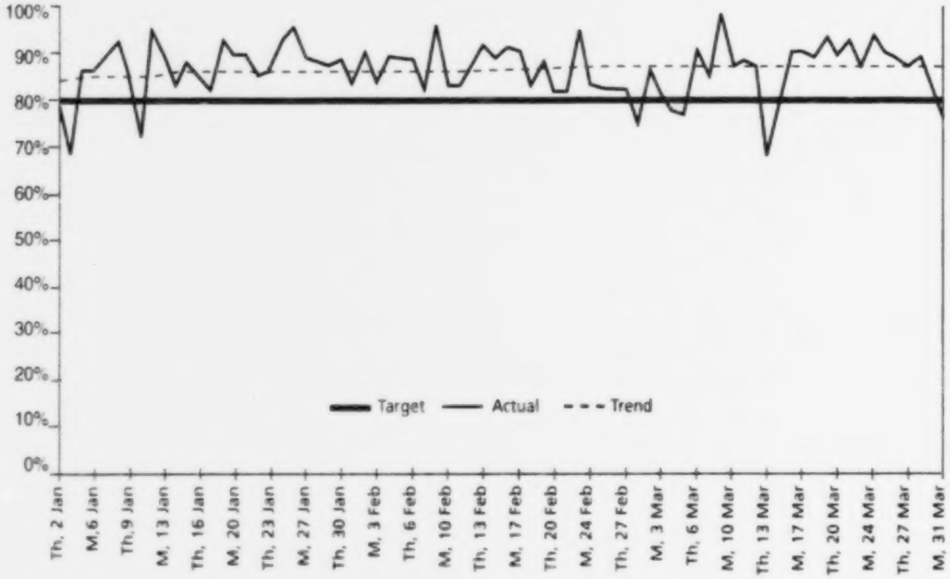
- BC Hydro's goal – and the contractual obligation with Accenture Business Services by the end of the third year – is to have first-quartile customer service.

	Quartile
Percentage of missed meter readings	1st
Customer Service satisfaction (call centres)	1st
Overall cost/customer	1st
Customer Service all injury frequency	4th

Customer Care Service Level – January 1 to March 31, 2003

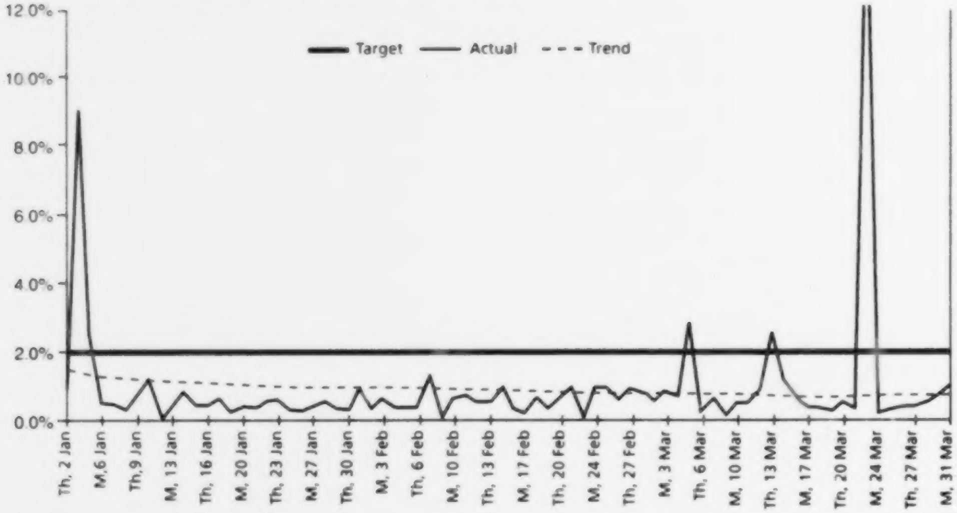
- The call centre achieved an overall adjusted Customer Care service level of 82 per cent with an adjusted abandonment rate of only 0.6 per cent.
- In the fourth quarter, total calls offered to the call centre via the Interactive Voice Response (IVR) were approximately 673 700, compared with 739 600 calls for the same period last fiscal year. The lower call volumes equate to an 8.9 per cent decrease in total calls offered compared with the same period last year.
- Total calls answered by our Customer Service Representatives (CSRs) were just over 446 000 for the quarter. This compares with 488 000 for the same period last fiscal year, a decrease of 8.6 per cent overall. Although fourth-quarter call volumes were down, total calls answered for the fiscal year-to-date were up approximately one per cent overall. This small increase was due largely to the increased call volumes experienced in the first half of the year before gas accounts were repatriated to BC Gas.
- As a result of the efforts of everyone in the call centre in the third and fourth quarter, the fiscal year ended with a Customer Care service level of 82 per cent. As well, the adjusted year-to-date abandonment rate was a favourable 1.1 per cent.

Customer Care – Service Level



Call volumes are usually highest at the beginning and end of each month (when customers move), Mondays, after long weekends, when heating costs rise (January to March), and in late summer (when people relocate to coincide with the school year). High call volumes occur during major outages, when there are bill changes or when a customer's method of daily business with BC Hydro changes.

Call Centre – % of Total Calls Abandoned



Abandonment peaks (and service level decreases) are associated with specific events such as storms or outages (as was the case for the peaks above on January 3 and March 22).

Fiscal 2003 Highlights

- Westech Information Systems had major participation in BC Hydro information technology initiatives focused on:
  - the Finance Business Transformation (April 2003 go-live), Portal Work Management System project (April 2003 go-live);
  - the Northstar Customer Information System (December 2003 go-live);
  - the Enterprise Geographic Information System projects; and
  - Grid Operations
- Network Computing Services (NCS) developed a separate web infrastructure to host ABS internal and external communications for the April 1 launch of the new entity. Web content that was previously part of the Hydro web was redesigned by Westech and, with the assistance of NCS web staff, was made available by the April 1 deadline.
- Disbursement services converted approximately 1600 BC Hydro employee jobs, deductions, and pension records to reflect a future date of April 1, in preparation for the start-up of ABS. They also adapted the Payroll and Human Resources (PAHR) system for separation of BC Hydro and ABS, and implemented an ACCPAC Accounts Payable system (ACCPAC is an integrated accounting software package).
- Significant work was done in the fourth quarter to install and implement an ACCPAC "bridge" financial system for Accenture Business Services of B.C. The new system, process and financial model were ready for the April 1 start-up.
- There were 522 energy diversion investigations in the fourth quarter, resulting in 109 confirmed energy diversions eliminated.
- The Northstar Project will replace the current Customer Information System with the SAP Customer Care and Services (CCS) System which will provide a foundation to support critical functions such as Call Centre, Billing, Credit and Collections and Meter Reading. The Northstar Team completed the Core Solution Phase on February 14 and the Application Testing Phase on April 11.

CORPORATE OPERATIONS

Fiscal 2004 Estimates

Employees (FTE)	Capital Replacement Value * [illegible]	Capital Expenditures [illegible]
350	$1,000	$74

* Capital replacement value is an estimate of the replacement cost of depreciable assets, which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

Overview

- BC Hydro, like all companies, has a range of functions that are combined under the heading "Corporate." These include:
  - Regulatory Affairs
  - Aboriginal Relations
  - Finance, Audit and Treasury
  - Chief Information Officer
  - Corporate Human Resources
  - Corporate Communications and Public Affairs
  - Freedom of Information Office
  - Legal

Human Resources

- To ensure that BC Hydro will be able to sustain its core operations, a strategic workforce planning initiative (SWfP) has been underway since fiscal 2001 to mitigate the impact of retirements and renew critical workforce capability. Each year, initiative funding has been targeted to enable hiring of apprentices and trainees in trades, engineering, technical and management positions. There was 100 per cent completion of 68 planned SWfP hires in fiscal 2003, bringing the total portfolio of positions to 224 and the investment to date to $19 million. A retirement modelling tool was developed this year to improve planning capability, and the resulting projections contributed to approval of a business case for an additional $10.3 million to sustain the SWfP initiative in fiscal 2004.
- Including SWfP positions, 120 new regular employees were hired in fiscal 2003. Employee attrition, which includes resignations, retirements and other terminations, was 5.4 per cent for the year, or 290 employees. Employee resignations accounted for 63 departures, a voluntary turnover rate of 1.2 per cent. Retirements comprised the major component of attrition, with 162 or three per cent of regular employees retiring or completing pre-retirement leaves by March 31, 2003. This represented a 24 per cent uptake rate of the 679 employees who were eligible to retire with unreduced pension in fiscal 2003.
- BC Hydro continues with the succession planning that began in 2001 with identifying high-risk positions. High-risk positions are defined as operationally or strategically critical to the ongoing success of the business, where no one is readily capable of stepping into the position within a reasonable time period. The succession plan expanded in 2003 to include identifying potential candidates for Vice-President/Executive and Direct Report level positions. Identifying and developing these candidates will ensure that BC Hydro will continue to have a depth of leadership bench strength for the future.
- In October 2002, after two months of intense negotiations between BC Hydro, the new entity (ABS), and the OPEIU (the Union), a Memorandum of Agreement (MOA) was signed regarding an Employee Transition Plan for the transfer of Combined Services to the new entity. This MOA outlined the process to be followed by the employers, union and employees during the transition to the new entity. Unionized employees were given an opportunity to elect one of the following three options: 1) move to ABS, 2) voluntarily sever their employment relationship with BC Hydro, or 3) use the collective agreement provision to attempt to "bump back" into BC Hydro.

CORPORATE OPERATIONS

Fiscal 2004 Estimates

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After the election process results were tabulated, more than 90 per cent of the unionized employees chose to move to ABS. Approximately six per cent chose severance/retirement as an option and the remaining employees indicated that they would try and bump back into BC Hydro. In addition, a number of employees were on approved leaves of absence or on sick leave at the time of the election and have not yet declared their preference.

Safety

- For the second consecutive year, BC Hydro has made significant improvements in safety performance. The proxy for comparison with other Canadian utilities is the measurement of "All Injury Frequency". In fiscal 2003 the goal of becoming a first-quartile performer was reached, a full year ahead of Plan.
- The Continuous Improvement Safety Management System has been fully developed during fiscal 2003 with published standards now being implemented. This multi-year project will conclude with the current prescriptive corporate standards being fully transferred to the appropriate Lines of Business/ Service Organizations by October 2003.
- The Safety Audit process conducted audits in 10 areas around the province this year. These audits involved multiple locations, hundreds of employees and roughly represent about one-half BC Hydro's workforce. The audit results have been outstanding, with a year-to-date average of 78 per cent compliance on system-related issues and 83 per cent compliance on leadership-related indicators.
- An improved Incident Investigation process has now been fully operational for a year. The data collected is beginning to pay dividends by allowing complex analysis and better understanding of the immediate and root causes for incidents. The incident report process was converted to an electronic system, which collects sufficient information to manage both the incident investigation results and the WCB claims if applicable. This past year 161 incidents were investigated and 470 corrective actions were completed to reduce the likelihood of reccurrence.
- The WCB periodically perform inspections of BC Hydro work sites. Their frequency varies at the discretion of the Prevention Division of the WCB. Inspections at BC Hydro have dropped noticeably over the past five years. During fiscal 2002/2003 WCB Officers have made 48 inspections resulting in 17 orders received. Each of these orders has received prompt attention by BC Hydro management and none is outstanding.

Aboriginal Relations

- The First Nations Community Development Fund, set up in 2001, provides grants to First Nations who have transmission and distribution facilities on their reserve lands. In fiscal 2003, funding agreements were reached with 131 out of 169 eligible bands. The maximum total value for grants in one fiscal year is $1.6 million.
- In its fourth year, the Aboriginal Business Partnership Program received just under 200 applications. The Program, which offers start-up and expansion grants up to $15,000 to aboriginal-owned businesses, provided $300,000 in funding. This year, BC Hydro provided grants to, among others, a custom wood production operation, full-service gas stations and a wool-processing plant.

Regulatory

- Two applications requesting amortization of certain expenses to smooth potential rate impacts were filed with the British Columbia Utilities Commission (BCUC or Commission) in June 2002. One application concerned the capitalization and amortization of costs associated with First Nations negotiations. The other application concerned the deferral and amortization of foreign exchange gains and losses associated with BC Hydro's foreign denominated debt. The Commission approved both applications in July.
- A Certificate of Public Convenience and Necessity (CPCN) application was filed by BC Hydro on

September 30, 2002, requesting approval to install a new underground cable circuit (2L33) from the Horne-Payne substation in Burnaby to the Cathedral Square substation in downtown Vancouver at an estimated cost of $44 million. This 230 kV line will replace an existing 45-year-old cable circuit that is nearing the end of its useful life. Installation of the line will be along a new route to improve system reliability and provide a seismically secure supply to the downtown core. The Commission approved the application on December 17, 2002 and construction has since commenced on installing the new line.

- The Canadian process for reviewing the Georgia Strait Crossing project was ongoing throughout fiscal 2003, culminating in an oral hearing in Sidney, B.C. that commenced on February 24, 2003 and concluded on March 19, 2003. At the hearing, the Joint Review Panel, representing the National Energy Board and the Canadian Environmental Assessment Agency, heard testimony from eight witness panels representing BC Hydro and Williams Pipeline. A decision by the Joint Review Panel is expected in fall 2003. On September 20, 2002 the Federal Energy Regulatory Commission issued its final order granting a CPCN for the U.S. segment of the project.
- On March 12, 2003 Vancouver Island Generation Corporation filed an application with the BCUC requesting a CPCN for the Vancouver Island Generation Plant at Duke Point. A two-day workshop sponsored by the Commission was held in Nanaimo on April 22 and 23 to provide technical information on the project. An oral hearing on the application is expected to commence in Nanaimo in early summer 2003.
- The Office and Professional Employees' International Union (OPEIU) commenced proceedings before the BCUC in summer 2002 seeking a public hearing on BC Hydro's proposal to outsource support services through a partnership with Accenture. BC Hydro opposed the application on the basis that sections of the Utilities Commission Act requiring Commission approval of the transaction had no application to BC Hydro and the BCUC ought not to use its general inquiry powers in this case. The BCUC accepted BC Hydro's position. The OPEIU sought reconsideration of the decision but the BCUC declined their application on July 12, 2002. The OPEIU submitted another similar application to the BCUC in late December 2002. After an exchange of written submissions, new legislation was enacted that confirmed the lack of Commission jurisdiction in connection with the approval of the Accenture transaction. The OPEIU advised the Commission it intends to apply to the Supreme Court of B.C. for constitutional relief declaring these statutory amendments of no effect. On June 5, 2003, the Commission dismissed the OPEIU's application without further process.
- The issuance of the province's Energy Policy on November 25, 2002 contained several policy actions that will entail major public hearings before the Commission as BC Hydro returns to full regulation. In 2003 there will be an inquiry by the Commission to recommend the terms and conditions of a legislated heritage contract that will set the terms for supply from existing low-cost generation and to make recommendations with respect to the design of a stepped rate for industrial customers intended to increase the efficiency of the use and supply of energy to those customers without raising rates. BC Hydro filed its proposals in this regard with the Commission on April 30, 2003. The public inquiry session is scheduled to commence in late July 2003 in Vancouver. With the expiry of the rate freeze on March 31, 2003, a revenue requirement proceeding will occur at the end of fiscal 2004 to review BC Hydro's costs.

Fiscal 2004 Objectives

1. Energy Policy Implementation.
2. **Safety** – maintain first-quartile performance and continuous improvement in safety performance.
3. Review capital structure to support profitability.
4. Improve "employee committment" as measured by a follow-up employee survey.
5. Develop, implement and manage the agreements and working relationship with BCTC.
6. Continue to develop and manage the relationship with Accenture Business Services of British Columbia.
7. Complete major software projects.
8. Continue improvement of the Environmental Management Systems.
9. Continue reduction of known environmental exposures.

SUBSIDIARIES

POWERTECH

Fiscal 2004 Estimates

Employees (FTEs)	Capital Replacement Value * ($ Millions)	Capital Expenditures ($ Millions)
98	$10	$1

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Overview

- Powertech is BC Hydro's research and engineering technology subsidiary, providing a wide range of research and specialized technology support services to electric utilities and many other clients internationally.

Benchmarking

- No businesses have been identified that are similar enough to Powertech to provide a meaningful comparison. The corresponding organizations linked to Hydro Quebec and the electric industry in Ontario are much larger than Powertech, have different focuses and require subsidies.

Financial Highlights

- During fiscal 2003 Powertech earned record annual revenue and profit, $18 million and $2 million respectively. Fifty per cent of the revenue was from clients outside Canada.
- Techniques for the condition assessment of underground power cables were enhanced. BC Hydro is now using this technology to manage the maintenance and replacement of its underground cables at lower cost and improved reliability.
- Powertech helped one of BC Hydro's suppliers improve its manufacturing process and achieve improved quality and delivery times for important components used at hydroelectric generation stations.
- Risk-based, least-cost strategies for managing overhead components have been developed. Last year, Powertech assisted BC Hydro's Distribution Line of Business in developing and implementing such a strategy for managing risk associated with the porcelain cutouts in its distribution systems. This year Powertech is developing similar strategies for BC Hydro for managing the existing automatic splices and the through-bolts of the concrete poles in its distribution systems.
- A new system for the online purification of power transformer oil has been developed to the prototype stage. This has the potential to extend the service life of transformers by 25 per cent when used throughout the life of the equipment.
- Techniques for identifying impending problems in power transformer load tap changers have been developed. They are now used routinely by BC Hydro to help reduce equipment failures in service. Tap changer problems account for about one-third of all transformer breakdowns at substations.

POWERTECH

Fiscal 2004 Estimates

Employees (FTES)	Capital Replacement Value * ($ Millions)	Capital Expenditures ($ Millions)
98	$10	$1

* Capital replacement value is an estimate of the replacement cost of depreciable assets which is generally determined by applying a construction cost index (Handy-Whitman index) to the original cost of assets. The Handy-Whitman index is prepared especially for electric, gas and water utilities.

Overview

- Powertech is BC Hydro's research and engineering technology subsidiary, providing a wide range of research and specialized technology support services to electric utilities and many other clients internationally.

Benchmarking

- No businesses have been identified that are similar enough to Powertech to provide a meaningful comparison. The corresponding organizations linked to Hydro Quebec and the electric industry in Ontario are much larger than Powertech, have different focuses and require subsidies.

Financial Highlights

- During fiscal 2003 Powertech earned record annual revenue and profit, $18 million and $2 million respectively. Fifty per cent of the revenue was from clients outside Canada.
- Techniques for the condition assessment of underground power cables were enhanced. BC Hydro is now using this technology to manage the maintenance and replacement of its underground cables at lower cost and improved reliability.
- Powertech helped one of BC Hydro's suppliers improve its manufacturing process and achieve improved quality and delivery times for important components used at hydroelectric generation stations.
- Risk-based, least-cost strategies for managing overhead components have been developed. Last year, Powertech assisted BC Hydro's Distribution Line of Business in developing and implementing such a strategy for managing risk associated with the porcelain cutouts in its distribution systems. This year Powertech is developing similar strategies for BC Hydro for managing the existing automatic splices and the through-bolts of the concrete poles in its distribution systems.
- A new system for the online purification of power transformer oil has been developed to the prototype stage. This has the potential to extend the service life of transformers by 25 per cent when used throughout the life of the equipment.
- Techniques for identifying impending problems in power transformer load tap changers have been developed. They are now used routinely by BC Hydro to help reduce equipment failures in service. Tap changer problems account for about one-third of all transformer breakdowns at substations.

Environmental Highlights

- Powertech is working in a number of technical areas that make or will make positive contributions to the environment. Examples are:
  - Development of vegetable oils to replace mineral oils in applications where leakage might enter streams, rivers or oceans.
  - Research into environmentally-friendly wood preservatives.
  - An agreement was concluded with major automobile manufacturers in Asia, North America and Europe to develop and test on-board fuel storage and delivery systems for hydrogen-powered (zero emission) vehicles.
  - Technical support to develop and perform environmentally-friendly destruction of PCBs.
  - Powertech's Environmental Management System for its Surrey laboratories met the requirements of ISO 14001 during 2002/2003.

Fiscal 2004 Objectives

1. **Address BC Hydro's Technology Needs.**
2. **Continued Strong Financial Performance.**
3. **Contribute to the Economy of British Columbia.**
4. **Do an evaluation of the future business model for Powertech.**
5. **Work on commercialization of PCB destruction.**
6. **Work to increase the value of intellectual property.**

POWEREX

Fiscal 2004 Estimates

Employees [illegible]	Capital Replacement Value * [illegible]	Capital Expenditures [illegible]
120	$1	$6

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Overview

- Powerex, the wholly-owned power marketing subsidiary of BC Hydro, is a leading marketer of wholesale physical electricity products and services in Western Canada and the United States, and a growing player in other select markets across North America. Powerex is responsible for creating economic value for BC Hydro and the province by:
  - optimizing the unused capability of BC Hydro's generation system for trade, including purchasing energy for trade and resale using the hydroelectric system;
  - energy trading in the Western Electricity Coordinating Council and other regions; and
  - optimizing the purchase and sale of electricity and natural gas in relation to BC Hydro's capabilities and domestic requirements.

Benchmarking

- Powerex is a niche participant in the electricity trading marketplace. Powerex closely follows and monitors industry trends and evolves its business processes and risk metrics to ensure it continues to meet or exceed industry best practices. Powerex benchmarks its activities – market and credit risk metrics, operational efficiency, information technology, employee compensation and others – against industry peers and through comparison against industry standards as outlined in various publications and reports.

Financial Highlights

- In fiscal 2003 Powerex trade activities generated sales revenues of approximately $2 billion for the sale of over 31 000 gigawatt hours of electricity.
- Powerex invested significant time and resources protecting its interests in various U.S. investigations into potential energy market manipulation during the western energy crisis of 2000 and 2001. Powerex provided extensive evidence that its trading activities were within the rules and approved tariffs of the markets in which it operates, and expects that in the final analysis it will be exonerated of the allegations levelled against it.
- An arbitration decision found Alcan Inc. liable to Powerex in the amount of U.S.$100 million. Powerex and Alcan have been exploring potential alternative means for satisfying this obligation. Alternatives could involve U.S. deliveries of power instead of money. The arbitration stemmed from the termination in December 2001 of Powerex's long-term (1998 through 2014) purchase agreement with Enron Power Marketing Inc. (EPMI), when EPMI filed for bankruptcy protection. Under the terms of the agreement, Alcan agreed to remain liable to Powerex for EPMI's payment obligations up to U.S.$100 million.
- In fiscal 2003 Powerex invested in a number of information systems and technologies that effectively increased transactional capacity, improved information and physical security, enhanced risk reporting and increased market transparency through advanced analytics. Further information technology investment in fiscal 2004 will focus on supporting additional gas trading, automating transaction processing, enhancing management and regulatory reporting and fortifying business continuity plans.

POWEREX

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Environmental Highlights

- In fiscal 2003 Powerex launched a new green power product and made its first sale of "Green Power Certificates" (GPCs). Powerex GPCs are a "made in B.C." energy product derived from power produced by B.C. Independent Power Producers. Powerex developed GPCs in response to growing customer demand for green energy. For every GPC purchased, an equal amount of green electricity from the designated plants enters the BC Hydro transmission grid, and the environmental and social attributes of the power are credited to the GPC buyer. Powerex will be expanding its sales of GPCs in fiscal 2004.

Social Highlights

- In addition to participating in BC Hydro's fundraising efforts, Powerex staff give generously to both local and international charities with money raised through in-house fundraising activities. In fiscal 2003 Powerex employees raised a record of over $10,000, with 50 per cent of the proceeds supporting a number of Vancouver-based non-profit organizations, and the other 50 per cent going to "Street Angels" and the building of a house for an impoverished family in Brazil.

Fiscal 2004 Objectives

1. **Increase Sales Volumes to 33 000 GW·h** – six per cent over fiscal 2003. Powerex anticipates achieving this goal through continued sales to its traditional western markets and expansion of its activities in other North American markets.

2. **Enhance Gas Trading** – Powerex also plans to enhance its gas trading expertise and infrastructure to support its gas procurement activities for BC Hydro as well as its other gas trading activities.
3. **Increase Gas and Electricity Purchases for BC Hydro's Domestic Use**, as required by BC Hydro's Generation Line of Business, to over 5000 GW·h in fiscal 2004, compared with approximately 2300 GW·h in fiscal 2003.
4. **RTO West** – Powerex will continue its efforts towards improving the efficiency of the regional market via participation in RTO West and other forums that impact market design and operations.
5. **Use of capital** – Powerex will develop strategies for use of capital.
6. **Risk-reward** – Powerex will review risk-reward decision-making.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This discussion should be read in conjunction with the consolidated financial statements of the company and related notes. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

Results

Net income of $418 million for the year was $15 million higher than for the same period in the previous year. Before the transfer from the Rate Stabilization Account, net income of $352 million was $94 million higher than the prior year. This increase was largely due to the impact of improved water inflows, lower market prices for energy purchases, lower interest rates and an increase in electricity trade activity. An increase in depreciation and amortization expenses due to additions to assets in service and an increase in operations, maintenance and administration expenses largely due to higher post-retirement benefit costs and to higher legal costs relating to issues in the California market partly offset the favourable variance. Net income for fiscal 2003 also includes Restructuring Costs of $37 million relating to the outsourcing of some of BC Hydro's support and administrative functions to Accenture Business Services.

Domestic Revenues

Residential

Residential revenues of $923 million were $7 million lower than for the same period in the previous year. This decrease was a result of the warmer weather experienced this year especially in March. The weather in March 2003 was seven per cent warmer than normal while the weather in March 2002 was the third coldest on record. The addition of approximately 18 000 residential customers since March 31, 2002 partially offset the unfavourable variance.

Light Industrial and Commercial

Light industrial and commercial revenues of $893 million were $19 million higher than for the same period last year. Most of the increase resulted from customer growth, mainly in the commercial sector. A total of 1163 new customers were added during fiscal 2003.

Large Industrial

Large industrial revenues of $516 million were $34 million higher than for the same period in the previous year. Large industrial revenues during the second half of the prior year were unusually low due to several factors including the decline in the economy shortly after the events of September 11, 2001. The expiry of special programs that offered customers reduced rates under various programs initiated by either BC Hydro or the Provincial Government also contributed to the increase in revenues. These special programs largely related to energy conservation and job protection programs.

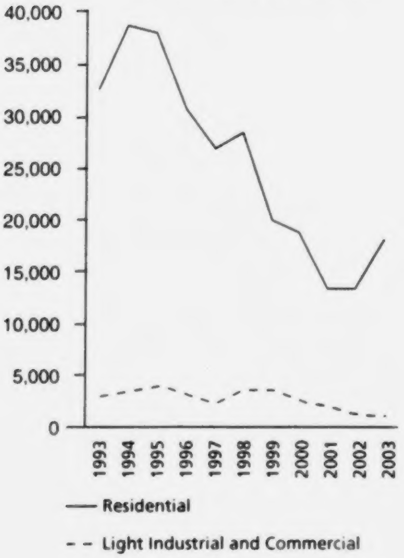
Miscellaneous

Miscellaneous revenues consist primarily of transmission wheeling revenues, rents and connection charges, and other ancillary services. Miscellaneous revenues of $55 million for the 12 months ended March 31, 2003 were $20 million lower than for the same period last year. This decrease was primarily due to lower ancillary service revenues as a result of lower market prices for such products as energy loss compensation for transmission.

Other Energy Sales

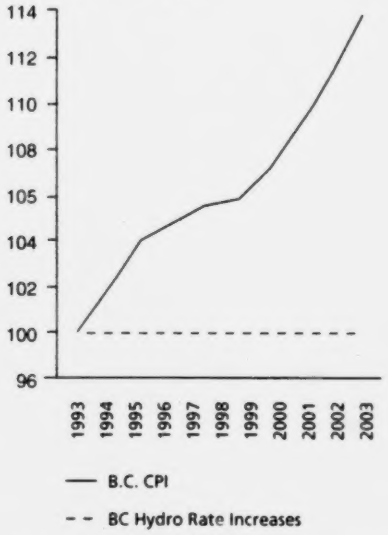
Other energy sales include the sales of energy to other utilities within B.C. and sales of firm energy to those outside the province under long-term contracts, which are reflected in BC Hydro's domestic load requirements. The sales outside the province primarily relate to sales to Seattle City Light under the Skagit River Treaty Agreement. Other energy sales of $88 million for the 12 months ended March 31, 2003 were similar to the previous year.

Customer Additions



Annualized Rate Increases vs. Consumer Price Index

Indexed to March 31, 1994



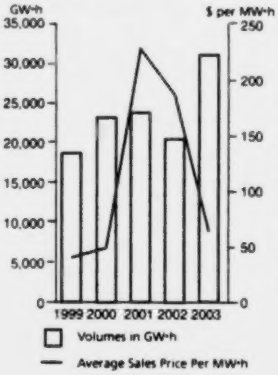
BC Hydro has not had a rate increase since April 1993. Given inflation over the last ten years, real electricity rates for BC Hydro's domestic customers have declined by approximately 14 per cent.

Electricity Trade Revenues

BC Hydro's electricity system is interconnected with systems in Alberta and the Western United States. This interconnection facilitates sales and purchases of electricity outside British Columbia. Electricity trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. While engaged in electricity trade, BC Hydro ensures its ability to meet its domestic supply requirements is not put under undue risk as a result of these transactions. Electricity trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.

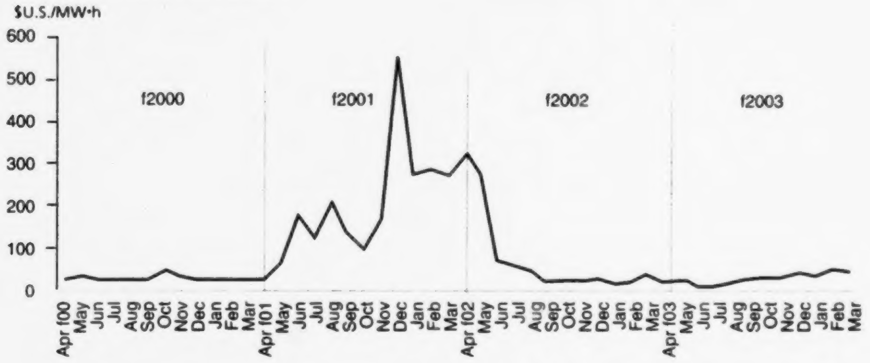
Electricity trade revenues were $1,932 million for the twelve months ended March 31, 2003, a significant decrease of $1,929 million from the same period last year. The decrease was due to a reduction in the average sale prices, which fell by 67 per cent from $187/MW·h last year to $62/MW·h this year. Market prices have declined to more traditional levels since June 2001 from the unsustainable levels experienced in 2000 and early 2001. A 51 per cent increase in sales volumes from 20 666 GW·h in the prior year to 31 182 GW·h this year partly offset the impact of lower sale prices. The increase in sales volumes was due to greater market opportunities for buy/resell transactions and is consistent with Powerex's growth strategy.

Electricity Trade Volumes and Average Sale Prices



Electricity trade sale prices decreased significantly to $62/MW·h in fiscal 2003 from $187/MW·h in fiscal 2002. Market prices have declined to more traditional levels since June 2001. The increase in sales volumes in fiscal 2003 was due to greater market opportunities for buy/resell transactions.

Mid-Columbia Flat Index



Market prices at the mid-Columbia multi-lateral trading hub in central Washington state are shown as they are indicative of prices in the Pacific Northwest. Market prices have declined to more traditional levels since June 2001.

The following table compares Powerex sales and purchases for each quarter of this year, compared with the prior year.

	(in millions)		Volumes (in GW•h)		Average Prices ($MW•h)	
1st Quarter (April to June)	**2003**	2002	**2003**	2002	**2003**	2002
Sales	**$ 325**	$ 1,860	**6,995**	4,940	**$ 46**	$ 377
Purchases[1]	**$ 308**	$ 1,608	**9,614**	7,665	**$ 32**	$ 210
Net Import			**(2,619)**	(2,725)		
2nd Quarter (July to September)						
Sales	**$ 629**	$ 1,247	**10,325**	6,254	**$ 61**	$ 199
Purchases[1]	**$ 468**	$ 1,062	**9,348**	8,087	**$ 50**	$ 131
Net Export (Import)			**977**	(1,833)		
3rd Quarter (October to December)						
Sales	**$ 478**	$ 481	**7,118**	5,528	**$ 67**	$ 87
Purchases[1]	**$ 350**	$ 458	**6,263**	5,459	**$ 56**	$ 84
Net Export			**855**	69		
4th Quarter (January to March)						
Sales	**$ 500**	$ 273	**6,744**	3,944	**$ 74**	$ 69
Purchases[1]	**$ 437**	$ 258	**7,711**	4,693	**$ 57**	$ 55
Net Import			**(967)**	(749)		
Total						
Sales	**$ 1,932**	$ 3,861	**31,182**	20,666	**$ 62**	$ 187
Purchases[1]	**$ 1,563**	$ 3,386	**32,936**	25,904	**$ 47**	$ 131
Net Import			**(1,754)**	(5,238)		

[1] These figures reflect energy purchases only and do not include any other component of energy costs such as transmission costs.

BC Hydro was in a net import position of 1,754 GW·h for the year compared with a net import position of 5,238 GW·h in the prior year. Imports, when economic, are used to supplement BC Hydro generation (includes hydro and thermal generation) in meeting domestic load requirements and are also used for future resale in the electricity trade market. Approximately 65 per cent of the net imports during this fiscal year will be used for the purposes of future electricity trade activities.

Total Net Imports	**Volumes (in GW·h)**	
	2003	2002
Used for future resale in the electricity trade market	**(1,113)**	(1,967)
Used to meet domestic load requirements	**(641)**	(3,271)
Total Net Imports	**(1,754)**	(5,238)

While BC Hydro had sufficient resources to meet its domestic load requirements, it chose to import energy as it was more economical than generating additional hydro generation and drawing down reservoir levels or increasing thermal generation at the Burrard Generating Station.

Energy Costs

Energy costs are composed of the following sources of supply:

	(millions of dollars)		**(gigawatt-hours)**		**($ per MW·h)**	
	2003	2002	2003	2002	2003	2002
Hydro[1]	**$ 258**	$ 228	**46 060**	40 202	**$ 5.6**	$ 5.7
Purchases from Independent Power Producers and other long-term purchase contracts	**293**	245	**5 046**	4 124	**58.1**	59.4
Other electricity purchases	**1,563**	3,386	**32 936**	25 904	**47.5**	130.7
Natural gas[2]	**195**	276	**410**	3 178	**95.6**	59.7
Non-integrated	**14**	14	**96**	92	**145.8**	152.1
Transmission charges and other expenses	**103**	258				
Total	**$ 2,426**	$ 4,407	**84 548**	73 500	**$ 28.7**	$ 60.0

[1] Net of storage exchange.

[2] Includes costs of remarketed gas of approximately $156 million for the twelve months ended March 31, 2003 compared with $86 million for the same period in the prior year. The volumes shown for natural gas relate only to gas used for thermal generation.

The mix of sources of supply are impacted by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

Energy costs of $2,426 million for the twelve months ended March 31, 2003 decreased by $1,981 million from the same period last year. This decrease reflects the decrease in the price of energy purchases, used primarily for future resale in the electricity trade market, and also reflects the positive impact of improved water inflow conditions. A decrease in electricity trade transmission costs due to lower market prices also contributed to the decrease in energy costs, while an increase in the volume of purchases used for electricity trade transactions partly offset the favourable variance.

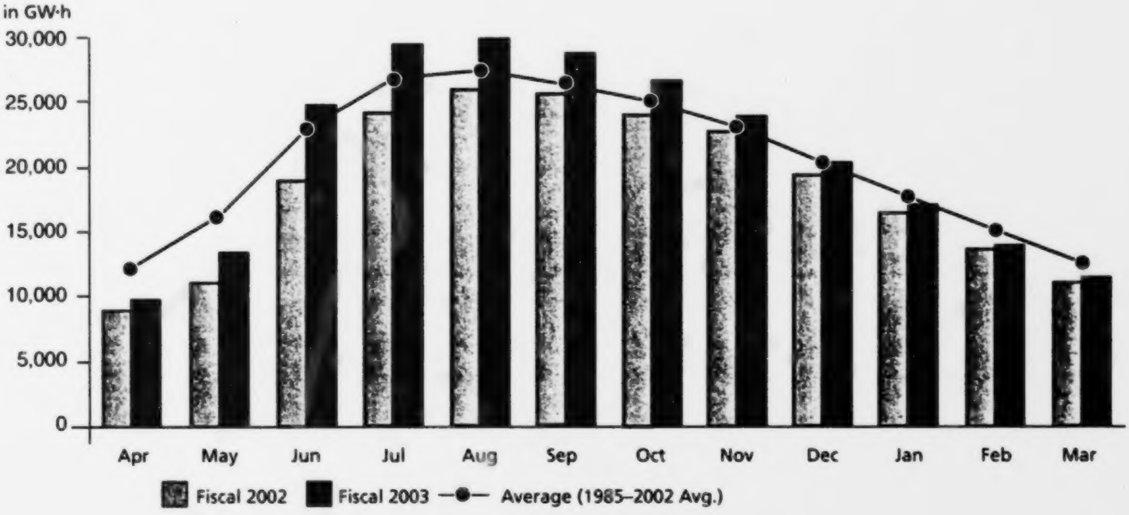
Energy prices for shorter-term energy purchases averaged $48/MW·h for the twelve months ended March 31, 2003, compared with $131/MW·h for the same period last year, a 63 per cent decrease. Market prices had returned to more traditional levels by June 2001, resulting in the decrease in average prices.

Water inflows into BC Hydro's reservoirs for the year increased 18 per cent over the prior year, allowing for an approximately 15 per cent increase in low-cost hydro generation and the replenishment of reservoir levels. The availability of low-cost hydro generation has a significant impact on energy costs, as the variable cost of hydro-generation is substantially less than the cost of electricity purchases or the cost of thermal generation.

The combined storage in BC Hydro reservoirs at March 31, 2003 was 90 per cent of average compared with 86 per cent of average at March 31, 2002.

Purchases from Independent Power Producers were higher than the prior year due to an increase in deliveries from Calpine Island Cogeneration Limited Partnership (Island Cogen) after their start-up early last year.

Reservoir Storage



Excludes non-treaty storage

Operations, Maintenance and Administration

Operations, maintenance and administration (OMA) expenses of $573 million for the twelve months ended March 31, 2003 were $23 million higher than for the same period last year. This increase was largely due to an increase in employee future benefit costs and an increase in legal and other associated costs relating to the wholesale market in California. These increases were partially offset by targeted non-maintenance cost reductions and to a $10 million decrease in emergency maintenance costs at the Burrard Generating Station caused by the failure of one unit in the prior year. A shift of work from OMA to capital in nature due to an increased focus on sustaining capital also helped to partly offset the overall increase in OMA costs.

The increase in employee future benefit costs of approximately $45 million was largely due to an increase in the pension liability based on the September 2002 actuarial valuation of BC Hydro's pension plans. The actuarial valuation reflected increased obligations as a result of several factors such as employees retiring earlier and living longer. A decline in the value of pension fund assets due to the decline in stock markets also contributed to the increased pension costs.

Legal and other associated costs related to a number of lawsuits, investigations and regulatory proceedings arising from claims related to the electricity wholesale market in California in 2000 and 2001 also contributed approximately $30 million to the increase in OMA. BC Hydro continues to believe the terms of Powerex's sales in California were just and reasonable and there was no illegal or improper conduct by Powerex. Powerex intends to vigorously defend its position that it has always transacted in California in accordance with the rules and approved tariffs of the California markets.

Targeted non-maintenance cost reductions of approximately $20 million helped offset some of the OMA increases. These targeted cost reductions were primarily in the areas of travel, communications and information technology support costs.

BC Hydro continues to invest in programs and initiatives designed to increase efficiencies and add value to its customers and shareholder. The move to the Lines of Business structure and the outsourcing of various administrative and support functions to Accenture Business Services will help BC Hydro achieve its objective of top-quartile cost performance.

Taxes

Taxes decreased by $21 million from the same period last year. This decrease was due to lower corporation capital taxes as a result of a reduction in the corporation capital tax rate in September 2001 and its phase-out in September 2002. Taxes are comprised of the following:

	2003	2002
Grants	$ 42	$ 41
School taxes	100	99
Corporation capital taxes	3	26
Total taxes	$ 145	$ 166

Depreciation and Amortization

Depreciation and amortization expenses were $417 million, compared with $386 million for the previous year. The increase was primarily due to more assets in service needed to service customer growth and replace aging and less reliable equipment.

Finance Charges

(dollar amounts in millions)	2003	2002	Change
	$ 457	$ 544	$ 87
Changes:			
Interest rates			$ 49
Foreign exchange			46
Sinking fund			1
Volume			(17)
Other			8
			$ 87

Finance charges for the twelve months ended March 31, 2003 of $457 million were $87 million or 16 per cent lower than the same period last year. Lower interest rates were the primary reason for the decrease. Canadian interest rates on variable rate debt declined by 30 per cent from an average of 3.53 per cent in fiscal 2002 to 2.72 per cent in fiscal 2003.

The positive foreign exchange variance from the prior year was primarily due to a decrease in the amortization of deferred foreign exchange losses and to a stronger Canadian dollar vis-à-vis the U.S. dollar. The Canadian dollar was valued at US$ 0.6806 at March 31, 2003, compared with US$ 0.6275 at March 31, 2002.

In July 2002 the British Columbia Utilities Commission (BCUC) approved BC Hydro's request to continue to defer and amortize foreign exchange gains and losses on long-term monetary items. The method of amortization was also changed and is now based on the weighted average remaining term to maturity of the long-term foreign currency denominated monetary items. This change resulted in a longer amortization period and is accounted for prospectively.

Under GAAP (Generally Accepted Accounting Principles) effective in fiscal 2003, translation gains and losses arising on long-term foreign currency denominated monetary items are to be included in income in the current period. The request to continue to defer and amortize foreign exchange gains and losses and to change the amortization method was brought forward to the BCUC, as under this method BC Hydro's income is less sensitive to changes in foreign exchange rates and is consistent with its objective of having smooth and stable rates.

Restructuring costs

Restructuring costs relate to the one-time costs resulting from the outsourcing of some of BC Hydro's support and administrative functions such as Customer Services, Network Computing Services, Building and Office Services, Human Resources, Payroll, Purchasing Disbursements and Financial Services.

In February 2003 BC Hydro signed a 10-year outsourcing agreement, effective April 1, 2003, with Accenture Business Services of British Columbia (ABS). As part of the outsourcing agreement, approximately 1,600 employees from BC Hydro were transferred to ABS. This resulted in a loss on the curtailment of a significant portion of BC Hydro's defined benefit pension plan and other post-retirement benefit plans. This loss, together with a small amount of severance costs for the few employees not wishing to move to ABS, was charged to income this year.

The restructuring costs will be recovered through future cost savings, as the agreement with ABS is designed to save BC Hydro and its customers $250 million in costs over the term of the agreement.

Transfer From Rate Stabilization Account

The Rate Stabilization Account (RSA), established in fiscal 2000, is used to mitigate the impact of fluctuating earnings on customers. In years when BC Hydro's actual return on equity is in excess of that allowed by the British Columbia Utilities Commission, a transfer is made from income into the RSA. In lower income years when BC Hydro's return on equity is below that allowed, a transfer is made from the RSA, if there is a balance, to offset any rate increase that may be needed to allow BC Hydro to earn its allowed return on equity. The transfer from the RSA was $66 million in 2003, compared with a transfer from the RSA of $145 million in the prior year. The balance in the RSA account at the end of fiscal 2003 totalled $21 million.

Transfers to (from) Rate Stabilization Account (RSA) ($millions)

Fiscal Year	Transfer	Balance
2000	129	129
2001	103	232
2002	(145)	87
2003	(66)	21

Payment to the Province

(millions of dollars unless otherwise stated)	2003	2002
Actual return on equity	**15.47%**	15.24%
Allowed return on equity[1]	**15.47%**	15.24%
Payment to the Province	**$ 338**	$ 333

[1] BC Hydro's allowed 1995 rate of return was approved by the British Columbia Utilities Commission in its last rate decision of November 24, 1994. The following years' rates of return were calculated by BC Hydro using the same method as in 1995. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.

BC Hydro is required to make an annual Payment to the Province equal to 85 per cent of its distributable surplus. Distributable surplus is calculated as consolidated net income adjusted for interest during construction and related depreciation.

In addition to the Payment to the Province of $338 million, BC Hydro paid $403 million in water rentals, school taxes, grants and capital tax to provincial and municipal governments in fiscal 2003.

Capital Expenditures

Capital expenditures, including demand-side management programs, for the twelve months ended March 31, 2003 amounted to $741 million compared with $545 million for the same period last year.

(millions of dollars)	**2003**	2002	Change
Generation replacements and expansion	**$ 227**	$ 148	$ 79
Transmission lines and substation replacements and expansion	**156**	93	63
Distribution improvements and expansion	**170**	154	16
General-computers, vehicles, etc.	**143**	136	7
Power Smart (Demand-side management)	**45**	14	31
Total	**$ 741**	$ 545	$ 196

Sustaining capital expenditures on existing assets amounted to approximately $373 million for the twelve months ended March 31, 2003 compared with $333 million for the same period last year. Expenditures for growth totalled approximately $368 million for the twelve months ended March 31, 2003 compared with $198 million for the same period last year. The increase in growth capital expenditures was primarily in generation-related projects and the Power Smart program.

The increase in generation-related expenditures was largely due to expenditures for the Vancouver Island Generation Project (VIGP), a new high-efficiency natural gas-fired electricity generation facility proposed to be built at Duke Point near Nanaimo and be in-service in mid 2006. Expenditures for the twelve months ended March 31, 2003 totalled approximately $53 million and related primarily to the payments towards the purchase of a gas turbine and steam turbine. In March 2003 BC Hydro submitted its application to the BC Utilities Commission (BCUC) for a Certificate of Public Convenience and Necessity (CPCN) for the proposed VIGP. A CPCN is required from the BCUC in order for BC Hydro to move ahead with the VIGP project. To ensure reliable electricity supply on Vancouver Island, the VIGP is needed to address the high-voltage direct current cable system's expected retirement and to meet long-term load growth. The application contains information on the project and why it is needed to help maintain the reliability of the electricity supply on Vancouver Island. A public hearing process by the BCUC is scheduled to take place later in the year as part of the CPCN application. BC Hydro also continues to await a decision regarding an environmental assessment certificate for the VIGP. The Environmental Assessment Office, by May 30, 2003, will submit its referral report to the appropriate Ministers for final approval.

By letter dated April 30, 2003, BC Hydro terminated its gas turbine generator contract relating to VIGP. While the termination penalty is 40%, market conditions suggest that BC Hydro would benefit by terminating the existing contract and purchasing a new gas turbine at current market prices. Cancellation of the contract provides a number of benefits, including better alignment of equipment delivery with the VIGP in-service date, opportunity to customize the equipment in response to final plant specifications, better coverage of equipment supplier warranty provisions, elimination of cost of storage, reduced risks associated with ownership prior to in-service date, and cash savings. Cancellation of the turbine purchase contract and the purchase at a later date results in a small reduction in overall forecast project costs; therefore, the carrying value of the project continues to be appropriate.

The Seven Mile Unit 4 project, which involves the design, supply, and installation of a fourth generating unit at BC Hydro's Seven Mile dam and powerhouse on the Pend d'Oreille River near Trail, also contributed to the increase in generation expenditures. Expenditures for the twelve months ended March 31, 2003 totalled approximately $39 million and related to the installation of the hydraulic turbine, generator and related equipment necessary for generation by April 2003.

Expenditures for transmission line replacement and expansion include costs for the Lower Mainland and Vancouver Island South Microwave System Replacement project. The Lower Mainland and Vancouver Island South microwave system is the core of the microwave network and links with the Peace and Columbia power systems. The current equipment consisting of radios, multiplex equipment, batteries and chargers was deteriorating due to age and was becoming increasingly unreliable. The expenditures for the twelve months ended March 31, 2003 totalled approximately $12 million and related to the purchase and installation of new digital radios, fibre optic cables and ancillary equipment. The Pingston Creek IPP Interconnection project, which involves the construction of a new 69-kilovolt (kV) transmission line from Shelter Bay to the Illecillewaet Substation, also contributed to the increase in transmission line replacement and expansion expenditures. Expenditures for the twelve months ended March 31, 2003 totalled approximately $7 million and related to the installation of a 230/66 kV transformer at Illecillewaet, the purchase of transmission line material and construction of the overhead line from Walter Hardman to Pingston Generating Station. These installations have been completed and are ready for the IPP to deliver power.

Power Smart is BC Hydro's demand-side management (DSM) program. It has the 10-year objective of obtaining an additional 3500 GW·h per year of reduced energy consumption from its business and residential customers by investing $600 million in incentives and market transformation activities. In fiscal 2003, $45 million in capital expenditures was invested in energy savings programs in the residential and business sectors. The initial emphasis of these programs is to acquire energy savings through the use of incentives, in order to introduce new, more-efficient technologies and to overcome initial price barriers. For fiscal 2003 these Power Smart programs produced 388 GW·h per year of energy savings, meeting the annual savings target. In later years the goal is to transform the market and reduce the emphasis on incentives. This will be done using appropriately designed rate structures, improved technology, public educational information and awareness, retail promotion, and government standards and regulations.

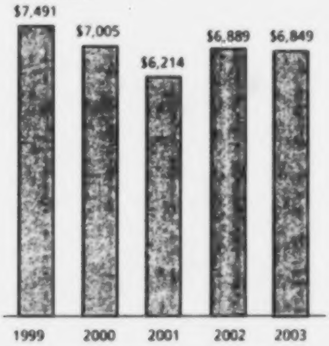
Long-Term Debt

Long-term debt, net of sinking funds and temporary investments, was $6,849 million as at March 31, 2003, compared with $6,889 million as at the end of the prior year, a decrease of $40 million. The decrease in the long-term debt balance was almost entirely due to the stronger Canadian dollar, which decreased the Canadian equivalent of the U.S. debt held by BC Hydro. BC Hydro maintains a portion of its core debt portfolio in U.S. dollars to match U.S. interest payments to U.S. dollar revenues received from export sales and to take advantage of the generally lower U.S. interest rates. An increase in financing needed to fund the increase in capital expenditures almost offset the decrease in the debt balance caused by the stronger Canadian dollar.

During the year, BC Hydro redeemed U.S. bonds totalling Cdn$1,019 million. These redemptions were largely financed through the issuance of three Canadian and two U.S. bonds totalling Cdn$1,007 million.

BC Hydro continues to actively manage its debt portfolio in order to meet its objective of reducing its overall cost of debt within acceptable levels of risk. In order to meet this objective, BC Hydro maintains direct exposure to both Canadian and U.S. dollars at fixed and floating interest rates, and employs various strategies. These strategies include the use of cross-currency and interest rate swaps to rebalance its debt portfolio to its optimal position.

Net Long-Term Debt
$ in millions



Consists of long-term debt, including the current portion, net of sinking funds and temporary investments. Long-term debt has decreased by $642 million in the last five years.

Business Risks/Uncertainties

BC Hydro is subject to various financial and other risks that can cause significant volatility in its earnings. While these risks cannot be eliminated, as they are largely non-controllable, some may be mitigated to a certain degree. The key risks and uncertainties BC Hydro faces include:

1. Water inflows into reservoirs and impact on hydro generation

BC Hydro's net income is significantly influenced by the level of water inflows into its reservoirs. High levels of water inflows into BC Hydro's reservoirs allow for a greater proportion of energy demand to be met using low-cost hydro generation in place of higher-priced energy purchases, thereby reducing the cost of energy and increasing net income. The unit cost of energy purchases is currently, on average, more than ten times greater than unit cost of hydro generation. High inflows can also create surplus energy not required to meet domestic demand. This energy can be sold at favourable profit margins on the electricity trade market. Because the amount of inflows can fluctuate significantly from year to year, BC Hydro faces challenges in operating its system to try to minimize the impact of low water years on net income. BC Hydro continues to optimize energy management through the appropriate mix of self-generation and energy imports, depending on water inflows and the fluctuating economic and market conditions.

2. Energy Market Prices and Export Margins

Export revenues are directly affected by market prices, as are short-term energy purchases related to both domestic and electricity trade. Market prices also affect a number of decisions, including whether it is more economical to generate hydro or thermal electricity; whether to purchase energy during specific time periods; and when to sell energy in the export market. Market prices that are relevant to BC Hydro are strongly influenced by market conditions in the Pacific Northwest and in California, where the majority of BC Hydro's electricity trade transactions occur. Factors such as the level of water inflows, gas prices, unit outages and weather conditions in the Pacific Northwest and California all influence the market price. Any change in market prices could have a significant impact on BC Hydro's electricity trade revenues, cost of energy and, ultimately, net income. Energy continues to be among the most volatile traded commodities, as market prices can vary significantly from period to period. BC Hydro tries to take advantage of this volatility by consistently monitoring its market strategies and using its storage and generation capabilities. BC Hydro also has risk management practices to manage market, credit and administrative risk related to these activities.

3. Interest rates and foreign exchange rates

As with most utilities, BC Hydro is a highly debt-leveraged, capital-intensive company. Changes in interest and foreign exchange rates can therefore have a significant impact on finance charges. BC Hydro uses several debt-management strategies to minimize the impact of interest rate and foreign exchange rate fluctuations; however, these fluctuations can still exert a significant influence on finance charges. Some of the debt-management strategies employed by BC Hydro include the use of foreign currency agreements to minimize foreign exchange risk and the management of fixed – and floating – rate debt within acceptable risk levels in order to minimize interest rate risk. Continuing the deferral and amortization of foreign exchange gains and losses on monetary items such as debt also helps in reducing income risk.

4. Weather

Weather has a significant impact on residential revenues, particularly in the months of December to February. It is estimated that if temperatures are 10 per cent warmer or colder than normal, residential revenues will decline or increase by five per cent and seven per cent respectively. BC Hydro minimizes the impact of lost domestic sales resulting from warmer-than-normal weather by increasing reservoir levels, if practical, or by selling the energy in the export market.

Pension costs

The return on pension fund assets has a significant impact on pension costs (employee future benefit costs). Lower-than-expected returns can increase pension costs significantly. Though BC Hydro's pension fund assets are managed through professional investment managers, the return on assets is still subject to normal market volatility. BC Hydro, along with other companies that have defined benefit pension plans, is also required to have an actuarial valuation on its pension plan obligations every three years, at a minimum . Changes in BC Hydro's employee demographics, mortality rates, etc. can significantly influence the pension liability and corresponding pension costs. BC Hydro's last actuarial valuation was completed in September 2002.

Sensitivity Analysis

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes in fiscal 2003. Each separate item in the sensitivity assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

Factor	Change	Approximate change in earnings ($ millions)
Hydro generation[1]	1,000 GW.h	50
Electricity trade margins	$1/MW.h	30
Interest rates	100 basis points	30
Weather	5% warmer/colder	5
Pension costs	1% change in expected return on pension assets	5

[1] Assumes change in hydro generation is offset by corresponding change in energy imports (i.e., increase in hydro generation is offset by decrease in energy imports).

Risk Management

As part of its normal business activities, BC Hydro is exposed to a number of financial risks including commodity market risk, credit risk and interest rate and foreign currency risk related to electricity trade and financing arrangements. While these risks generally cannot be eliminated, BC Hydro manages its risks within a range of risk tolerance established through Board-approved policies, as well as management oversight, risk reporting and internal controls.

BC Hydro's Risk Management Policy specifies a risk philosophy, a statement of risk accountability, and the processes by which the corporation establishes tolerable risk levels and manages to them. Subordinate policies incorporate limits for energy trading, address the provision of energy to domestic customers and also cover asset and liability risks and safety and environmental responsibility.

BC Hydro's Risk Management Committee (RMC) is made up of financial and operational executives of the company. The RMC is primarily responsible for establishing and assessing the appropriateness of changes to risk management policies prior to approval by the Board of Directors. The RMC also provides oversight to risk control processes to ensure that financial risks are appropriately assessed, controlled and reported, and that risk management policies and limits are adhered to.

Commodity Market Risk

BC Hydro's commodity risk exposure is a result of volatility in electricity and natural gas prices. These risks arise due to volatility in hydro inflows and the requirement to purchase electricity and natural gas to support domestic electricity requirements, as well as through Powerex electricity trade activity in the Western United States and Canada.

BC Hydro's risk management policies and practices are intended to ensure the availability of energy for domestic requirements, and to optimize the value associated with BC Hydro's investment in generation assets. Energy trading risks are managed through limits on the size and duration of transactions and open positions. Generally, forward commitments must be backed by physical supply.

BC Hydro utilizes financial instruments such as natural gas and electricity fixed-price swaps to hedge its exposure to market price volatility.

Credit Risk

Credit risk arises when BC Hydro relies on other parties to honour or perform contractual obligations that have economic value to BC Hydro. This includes non-payment of balances owed to BC Hydro, as well as non-performance on contractual obligations that are favourable to BC Hydro. Credit risk arises through most of BC Hydro's activities; however, the greatest exposure arises through its electricity trade activities and its long-term power purchase contracts.

BC Hydro manages credit risk through Board-approved policies, as well as individual credit limits, which reflect the creditworthiness of its counterparties. BC Hydro maintains a significant infrastructure to proactively manage credit exposures. Credit exposures are mitigated through various techniques including collateral, netting arrangements and insurance.

Interest Rate Risk

Interest rate risk arises from potential changes in interest rates, and the associated impact on BC Hydro's cost of borrowing. At March 31, 2003, $2,631 million or 38.4 per cent of net debt was subject to interest rate reset risk during the next fiscal year. Interest rate risk is managed through Board-approved policies, which require the debt portfolio to be managed using an appropriate blend of fixed and floating rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and floating rate debt and to reduce its overall cost of borrowing.

Foreign Currency Risk

Foreign currency risk relates to potential changes in foreign currency rates, and the impact that this may have on BC Hydro's assets and obligations. The majority of BC Hydro's foreign currency exposure derives from United States currency cash flows coming from Powerex electricity sales. BC Hydro is also exposed to foreign currency movements through its debt portfolio, which includes a component of foreign currency denominated debt, and through currency exchange fluctuations on imported equipment. Foreign currency risk is managed through policies and limits that are approved by the Board of Directors.

Some of BC Hydro's exposure to foreign currency movements is reduced through its normal business activities, as BC Hydro is required to settle many of its transactions through payment or receipt of amounts in foreign currency. For example, because a component of BC Hydro's debt portfolio is denominated in U.S. dollars, this allows matching of U.S. dollar interest payments with U.S. dollar receipts from electricity trade activities. BC Hydro manages its remaining foreign exchange risk using a variety of financial instruments including foreign currency swaps, options and futures contracts.

2004 Future Outlook

BC Hydro's February 2003 Service Plan indicated that its net income for fiscal 2004 was expected to be a net loss of $70 million. This was based on the January 1, 2003 snowpack levels indicating an expected inflow level of 87 per cent of normal for fiscal 2004. BC Hydro's Service Plan is required to be filed in February of each year under the Budget Transparency and Accountability Act.

Since the Service Plan was filed, the improvement to snowpack levels has resulted in an increase in BC Hydro's projected net income.

The wetter-than-normal spring has improved snowpack levels and inflows are now expected to be approximately 94 per cent of normal. The increase in the availability of low-cost hydro generation due to the improved snowpack levels will have a positive impact on fiscal 2004 results as the dependence on higher-cost sources of supply will be reduced.

The impact of the improved snowpack levels has resulted in an increase in BC Hydro's income projection for fiscal 2004 to $80 million, a $150 million increase from the Service Plan projection. This change illustrates the volatility in BC Hydro's earnings, due largely to non-controllable factors.

The estimated earnings outcome for fiscal 2004 is based on current cost and revenue drivers and the impact that cost reduction and/or revenue enhancement initiatives will have on these drivers. BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. As a result of these risks and uncertainties, BC Hydro's net income (loss) for fiscal 2004 could range by $415 million, from a loss of $(200) million to an income of $215 million under various plausible scenarios.

MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 9, 2003. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors and appointment of external auditors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.

Larry Bell

L.I. (Larry) Bell
Chair and Chief Executive Officer

Bob Elton
*Executive Vice-President, Finance
and Chief Financial Officer*

*Vancouver, Canada
May 9, 2003*

AUDITORS' REPORT

The Lieutenant Governor in Council, Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2003 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ernst and Young LLP
Chartered Accountants

Vancouver, Canada
May 9, 2003

CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended March 31 (in millions)	2003	2002
Revenues		
Domestic		
Residential	$ 923	$ 930
Light industrial and commercial	893	874
Large industrial	516	482
Other energy sales	88	89
Miscellaneous	55	75
	2,475	2,450
Electricity trade	1,932	3,861
	4,407	6,311
Expenses		
Energy costs (Note 2)	2,426	4,407
Operations, maintenance and administration	573	550
Depreciation and amortization (Note 3)	417	386
Taxes (Note 4)	145	166
	3,561	5,509
Income before Finance Charges, Restructuring Costs and Transfer from Rate Stabilization Account	846	802
Finance charges (Note 5)	457	544
Income before Restructuring Costs and Transfer from Rate Stabilization Account	389	258
Restructuring costs (Note 14)	37	–
Income before Transfer from Rate Stabilization Account	352	258
Transfer from Rate Stabilization Account (Note 1)	(66)	(145)
Net Income	$ 418	$ 403

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended March 31 (in millions)	2003	2002
Retained earnings, beginning of year	$ 1,529	$ 1,459
Net income	418	403
Payment to the Province (Note 1)	(338)	(333)
Retained Earnings, end of year	$ 1,609	$ 1,529

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at March 31 (in millions)	2003	2002
Assets		
Capital Assets (Note 6)		
Capital assets in service	$ 14,940	$ 14,608
Less accumulated depreciation	5,816	5,557
	9,124	9,051
Unfinished construction	669	459
	9,793	9,510
Current Assets		
Temporary investments	4	17
Accounts receivable and accrued revenue (Note 12)	362	409
Materials and supplies	88	88
Prepaid expenses	86	111
Unrealized gains on mark-to-market transactions	10	19
	550	644
Other Assets and Deferred Charges		
Sinking funds (Note 7)	1,037	1,073
Demand-side management programs	123	103
Deferred debt costs (Note 8)	385	587
Foreign currency contracts (Notes 9 and 10)	13	32
Loans receivable	23	17
	1,581	1,812
	$ 11,924	$ 11,966
Liabilities and Equity		
Long-term debt net of sinking funds	$ 6,222	$ 6,276
Sinking funds presented as assets	1,037	1,073
Long-Term Debt (Note 9)	7,259	7,349
Foreign Currency Contracts (Notes 9 and 10)	15	16
Current Liabilities		
Current portion of long-term debt (Note 9)	631	630
Accounts payable and accrued liabilities	689	708
Accrued interest	108	107
Accrued Payment to the Province (Note 1)	338	333
Unrealized losses on mark-to-market transactions	10	17
	1,776	1,795
Deferred Credits and Other Liabilities		
Provision for future removal and site restoration costs	174	159
Deferred revenue	258	238
Rate Stabilization Account	21	87
Contributions in aid of construction	609	581
Contributions arising from the Columbia River Treaty	203	212
	1,265	1,277
Retained Earnings	1,609	1,529
	$ 11,924	$ 11,966

Commitments and Contingencies (Notes 7, 9 and 12)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Larry Bell

L.I. (Larry) Bell
Chair and Chief Executive Officer

A. Laberge

Alice Laberge
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended March 31 (in millions)	2003	2002
Operating Activities		
Net income	$ 418	$ 403
Adjustments for:		
Depreciation and amortization	417	386
Transfer from Rate Stabilization Account	(66)	(145)
Other non-cash items	24	23
	793	667
Working capital changes	1	(451)
Cash provided by operating activities	794	216
Investing Activities		
Loans receivable	(8)	3
Capital asset expenditures	(680)	(604)
Contributions in aid of construction	62	54
Demand-side management programs	(45)	(14)
Future removal and site restoration costs	(12)	(6)
Proceeds from property sales	1	4
Cash used for investing activities	(682)	(563)
Financing Activities		
Bonds, notes and debentures		
Issued	1,007	350
Retired	(1,019)	(622)
Revolving borrowings	147	173
Sinking funds	48	139
Deferred debt costs	3	8
Settlement of financial instruments	22	2
Cash provided by financing activities	208	50
Payment to the Province (Note 1)	(333)	(372)
Decrease in cash	(13)	(669)
Cash at beginning of year	17	686
Cash at end of year	$ 4	$ 17

Supplemental disclosure of cash flow information		
Interest paid	$ 540	$ 585

Cash consists of temporary investments.
See accompanying notes to consolidated financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Purpose

British Columbia Hydro and Power Authority ("BC Hydro"), established in 1962 as a Crown corporation of the Province of British Columbia (the "Province") by enactment of the Hydro and Power Authority Act, has a corporate mission to provide integrated energy solutions to its customers in an environmentally and socially responsible manner. BC Hydro is subject to regulation (see Note 1) by the British Columbia Utilities Commission (the "Commission") which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation, transmission and distribution facilities in the province of British Columbia.

Consolidation

The consolidated financial statements include the financial statements of BC Hydro and its principal wholly owned operating subsidiaries Powerex Corp. ("Powerex"), Powertech Labs Inc. and Westech Information Systems Inc.

Revenues

Domestic revenues comprise sales to customers within the province and sales of firm energy to those outside the province under long-term contracts, which are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as electricity trade.

Revenue is recognized on the basis of cyclical billings and also includes electricity deliveries not yet billed.

Foreign Currency Translation

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

Gains and losses arising from the translation of foreign denominated long-term monetary items are deferred and amortized. On July 11, 2002 the British Columbia Utilities Commission approved, under Order Number G-47-02, the continued deferral and amortization of foreign exchange gains and losses on the translation of foreign denominated long-term monetary items, using the straight-line pooled method of amortization, to be applied on a prospective basis for the fiscal year beginning April 1, 2002. The impact of this change on the current year's operations was to increase net income by approximately $21 million.

For long-term debt, the straight-line pooled method is based on the weighted average remaining term to maturity of the long-term foreign currency denominated debt portfolio. In prior years, amortization was calculated using a reverse sum-of-years methodology, with straight-line amortization in the last four years. Where foreign currency denominated long-term debt is refinanced in the same currency, any unamortized foreign currency translation gains and losses associated with the refinanced debt continue to be deferred and amortized. Where a portion of the foreign currency denominated long-term debt is refinanced in a different currency, a pro rata portion of the related pool of any unamortized foreign currency translation gains or losses are included in finance charges at the refinancing date.

For sinking funds, the straight-line pooled method is based on the weighted average term to maturity of the underlying long-term foreign currency denominated debt weighted by its sinking fund balances. The amortization method used in the prior year was over the weighted average term to maturity of the related debt portfolio.

Depreciation

Capital assets in service are depreciated on an individual or a pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of capital assets are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Distribution	30 – 50
Transmission lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	3 – 20
Service vehicles	7 – 20
Sundry	20 – 45

Finance Charges Capitalized

Finance charges are capitalized on construction in progress at rates equivalent to BC Hydro's average annual cost of borrowing (2003 – 5.59 per cent; 2002 – 5.82 per cent). The rate takes into consideration annual interest costs plus amortization of foreign exchange translation adjustments and amortization of premiums, discounts and issue costs.

Capital Assets

Capital assets in service are recorded at cost, which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Capital assets in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to income for assets depreciated on an individual basis, or to accumulated depreciation for assets depreciated on a pooled basis.

Unfinished construction consists of construction in progress and the unamortized balance of studies and abandoned or indefinitely deferred projects. Costs of construction in progress are transferred to capital assets in service when the asset is substantially complete and capable of operation at a significant level of capacity.

Costs of studies and abandoned or indefinitely deferred projects are deferred and amortized on a straight-line basis over five years where it is expected that the costs will be recovered through future rates. If the costs of an abandoned or indefinitely deferred project will not be recovered through continuing operations, the costs related to the project, including overhead and interest during construction, are expensed.

Temporary Investments

Temporary investments consist of cash and units of a short-term unitized bond fund that are valued at the lower of cost or market.

Materials and Supplies

Materials and supplies are valued at average cost less provisions for decline in value to net realizable value.

Mark-to-Market

BC Hydro follows mark-to-market accounting for certain energy trading activities. Under mark-to-market accounting, open trade positions are recorded at fair value. Changes in the fair value of open positions, resulting primarily from changes in market prices subsequent to the transaction date and the impact of price movements, are recognized as gains or losses in operating revenue in the period of change. The resulting unrealized gains and losses are recorded as trading assets and liabilities. The market prices used to determine fair value reflect management's best estimates considering various factors, including closing exchange and over-the-counter quotations, time value and volatility factors. However, it is possible that future market prices could vary from those used in valuing the assets and liabilities, and such variations could be material.

Revenues and cost of purchases associated with energy marketing and trading transactions, which meet the criteria for hedges, are recognized at the time of delivery of the underlying commodity.

Demand-side Management Programs

Demand-side management ("DSM") programs are programs designed to reduce the energy requirements on BC Hydro's system.

Expenditures on DSM programs, including materials, direct labour and applicable portions of administration charges, equipment costs, program costs and incentives, are deferred and amortized on a straight-line basis over ten years, except costs incurred prior to establishing feasibility of the project, which are expensed as incurred.

Incentives provided to assist in the construction of third-party electric generation facilities are deferred and amortized on a straight-line basis over the expected period of operation of the facilities.

Deferred Debt Costs

Discount and issue costs arising from debt issues are deferred and amortized on a straight-line basis over the remaining term of the debt. Premiums paid to call and refinance existing debt are deferred and amortized over the term to maturity of the new debt.

Derivative Financial Instruments

BC Hydro uses derivative financial instruments, principally interest rate and foreign currency swaps, options and forward rate agreements, to manage interest rate and foreign exchange risks related to debt.

Payments and receipts under interest rate and cross-currency swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated derivative interest rate and cross currency swaps, options and forward rate agreements are deferred and amortized over the remaining term of the related contracts.

Fair Value

The fair value of loans receivable, bonds, notes and debentures, and sinking funds reflects changes in the general level of interest rates that have occurred since inception. Fair value is based on quoted market values or, where no such information is available, is determined by discounting the expected future cash flows of the financial instrument using market rates applicable to financial instruments with similar terms and conditions. The fair value of a derivative financial instrument reflects the amount that BC Hydro would receive or pay to terminate these instruments at the balance sheet date. The fair value of over-the-counter derivative contracts is determined using pricing models, that take into account market prices and contractual prices of the underlying instruments, as well as time value, yield curve and volatility factors underlying the positions.

Sinking Funds

Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized.

Units in the pooled bond fund are recorded at cost, adjusted by amortization of any realized and unrealized gains and losses on a straight-line basis over the weighted average term to maturity of the related debt portfolio.

Future Removal and Site Restoration Costs

Provisions for the costs, net of expected recoveries, for future removal and site restoration arising on the retirement of capital assets are made where they can be reasonably estimated. These costs are charged to depreciation expense on a straight-line basis over the expected useful lives of the related assets. Provisions required are revised periodically in accordance with changes in BC Hydro's assumptions and estimates underlying the calculations and with experience arising from the removal of capital assets.

Deferred Revenue

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US $22 million each year for a 35-year period ending in fiscal 2020 and US $100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

Contributions

Contributions in aid of construction are amounts paid by certain customers toward the cost of capital assets required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The proceeds received were contributed to BC Hydro to assist in financing the dams' construction. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

Employee Benefit Plans

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the return on plan assets, those assets are valued at fair value.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans is 12 years (2002 – 12 years). The average remaining service period of the active employees covered by the other retirement benefits plans is 12 years (2002 – 12 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Environmental Expenditures and Liabilities

Environmental expenditures are incurred specifically to maintain or enhance the quality of the natural and social environment, or to minimize any adverse impact thereon. Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures relating to activities of BC Hydro are considered likely and the costs can be reasonably estimated.

Use of Estimates

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

NOTE 1: REGULATION

BC Hydro is regulated by the British Columbia Utilities Commission, and they are both subject to general or special directions issued by order of the Province. Orders in Council from the Province establish the basis for determining BC Hydro's allowed return on equity, calculation of its revenue requirements, rates charged to customers and the annual Payment to the Province.

Payment to the Province

BC Hydro is required to make an annual Payment to the Province on or before June 30 of each year, with respect to the financial results of the most recently completed fiscal year. The payment equals 85 per cent of BC Hydro's distributable surplus provided the debt-to-equity ratio of BC Hydro, after deducting the payment, is not greater than 80:20.

Distributable surplus is calculated as consolidated net income adjusted by deducting finance charges capitalized during the year, net of depreciation charged on capitalized finance charges. Equity is calculated as the sum of retained earnings, the Rate Stabilization Account, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction at the end of the fiscal year. Debt is calculated as the sum of revolving borrowings, bonds, notes and debentures, net of related sinking funds, temporary investments and repurchased debt at the end of the fiscal year.

Revenue Requirements, Return on Equity and Rates Charged to Customers

The Commission is required to ensure electricity rates are sufficient to allow BC Hydro to achieve an annual rate of return on equity equal to the return allowed, on a pre-income tax basis, by the most comparable investor-owned energy utility regulated under the Utilities Commission Act. The allowed annual rate of return on equity calculated for 2003 is 15.47 per cent (2002 – 15.24 per cent). Average electricity rate increases for each year are limited to the projected rate of inflation for British Columbia plus two percentage points. For rate-setting purposes, the rate of return on equity projected to be achieved by BC Hydro is determined after taking into account any available transfer from the Rate Stabilization Account.

BC Hydro's basic tariffs for all customers were frozen until March 31, 2003.

Rate Stabilization Account

The current Rate Stabilization Account was established on March 30, 2000, to mitigate the impact of volatile earnings on ratepayers. Transfers are made to the Rate Stabilization Account during high-income years to reduce the need for rate increases in low-income years.

Where consolidated net income, before any Rate Stabilization Account transfers, is greater than the amount needed by BC Hydro to achieve the annual rate of return on equity allowed by the Commission, then consolidated net income is decreased accordingly by an appropriate transfer to the Rate Stabilization Account.

Where consolidated net income, before any Rate Stabilization Account transfers, is less than the amount needed to achieve the allowed rate of return on equity, then consolidated net income is increased by a transfer from the Rate Stabilization Account. Transfers from the Rate Stabilization Account are subject to a positive balance existing in the account, provided BC Hydro's debt-to-equity ratio, after the transfers, is not greater than 80:20.

Provincial Energy Plan

In November 2002 the Province of British Columbia released "Energy for Our Future: A Plan for B.C." (the "Energy Plan"). The Energy Plan included a number of policy actions that will impact on BC Hydro's regulation in the future.

First, it provides for the establishment of a heritage contract, which will lock in the value of existing low-cost generation assets for an extended period. The heritage contract will be implemented through legislation that specifies the term and amount of energy involved. The Commission will review and recommend the terms and conditions for the heritage energy based on a return consistent with private utilities.

Second, the Energy Plan also indicates that the rate freeze will end on March 31, 2003 and will not be extended. Rates will be regulated to cover the projected costs of electricity to consumers. Once rates have been determined, subsequent rate changes will be set through performance-based regulation, which encourages the sharing of cost savings with ratepayers. BC Hydro will make a revenue requirements filing with the Commission before the end of fiscal 2004.

Third, a new publicly-owned entity will be responsible for planning, operating and managing BC Hydro's transmission system. The transmission assets will continue to be owned by BC Hydro. The new corporation will have a separate board of directors and will be regulated by the Commission. The Commission will review and approve wholesale transmission rates (Note 16).

NOTE 2: ENERGY COSTS

(in millions)	2003	2002
Water rentals	$ 258	$ 228
Electricity purchases	1,861	3,638
Fuel	200	280
Third-party transmission charges	100	255
Compensation and mitigation costs	7	6
	$ 2,426	$ 4,407

Water rental fees were remitted to the Province by BC Hydro in accordance with the Water Act. Electricity purchases include $97 million (2002 – $356 million) in energy transactions with the Province related to the Canadian entitlement to the downstream benefits under the Columbia River Treaty. These energy transactions are in the normal course of operations and are recorded based on market prices.

NOTE 3: DEPRECIATION AND AMORTIZATION

(in millions)	2003	2002
Depreciation of capital assets in service	$ 382	$ 363
Amortization of contributions arising from the Columbia River Treaty and contributions in aid of construction	(42)	(42)
Amortization of studies and abandoned or indefinitely deferred projects	11	7
Amortization of demand-side management programs	25	28
Future removal and site restoration costs	27	21
Capital asset write-offs	14	9
	$ 417	$ 386

NOTE 4: TAXES

(in millions)	2003	2002
School taxes and grants	$ 142	$ 140
Corporation capital taxes and other	3	26
	$ 145	$ 166

School taxes and grants and corporation capital taxes are paid to the Province unless otherwise noted. School taxes of $35 million (2002 – $35 million) and grants of $39 million (2002 – $38 million) were paid to municipalities and regional districts. All school taxes paid to municipalities and regional districts are remitted to the Province. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income tax.

NOTE 5: FINANCE CHARGES

(in millions)	2003	2002
Interest on debt securities		
– bonds, notes and debentures	$ 536	$ 568
– revolving borrowings	5	3
Amortization of deferred debt costs and other expenses	26	65
	567	636
Less:		
Sinking fund income	(60)	(58)
Other income	(26)	(18)
Finance charges capitalized to unfinished construction	(24)	(16)
	(110)	(92)
	$ 457	$ 544

Included in interest on debt securities is $520 million (2002 – $557 million) in interest paid to the Province.

NOTE 6: CAPITAL ASSETS

(dollar amounts in millions)	2003				2002			
	Capital Assets in Service	Accumulated Depreciation	Unfinished Construction	Composite Depreciation Rate	Capital Assets in Service	Accumulated Depreciation	Unfinished Construction	Composite Depreciation Rate
Generation								
Hydraulic	$ 5,193	$1,638	$ 207	1.5%	$ 5,142	$1,570	$ 110	1.5%
Thermal	425	207	133	3.6	399	193	77	3.4
	5,618	1,845	340		5,541	1,763	187	
Distribution	3,395	1,135	90	2.5	3,258	1,073	101	2.6
Transmission lines	2,789	1,256	27	2.1	2,740	1,206	28	2.1
Substations	1,917	963	73	3.2	1,885	958	59	3.1
Other								
Land and buildings	424	130	4	2.4	432	117	13	2.4
Equipment	644	399	125	10.2	607	357	71	9.3
Service vehicles	124	76	–	8.7	117	71	–	9.2
Sundry	29	12	10	3.3	28	12	–	3.3
	1,221	617	139		1,184	557	84	
Total	$14,940	$5,816	$ 669		$14,608	$5,557	$ 459	

NOTE 7: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. Sinking fund income is recorded as a reduction of finance charges.

The sinking fund balances at the balance sheet date include the following investments:

(dollar amounts in millions)	2003		2002	
	Carrying Value	Weighted Average Effective Rate[1]	Carrying Value	Weighted Average Effective Rate[1]
Money market unitized funds[2]	$ 4	2.6 %	$ 239	2.1 %
Province of B.C. and B.C. Crown corporation bonds	257	3.8	494	3.1
Federal and other provincial government securities	776	3.9	340	5.8
	$1,037		$1,073	

[1] *Rate calculated on market yield to maturity.*

[2] *Money market unitized funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.*

Fair value information for sinking funds is presented in Note 10.

Sinking Fund Requirements

Substantially all of BC Hydro's debt issues have annual sinking fund cash requirements. The annual sinking fund cash requirements for the next five years are:

(in millions)	2004	2005	2006	2007	2008
Canadian	$ 45	$ 41	$ 39	$ 38	$ 38
U.S.	$9 (U.S.$6)	$9 (U.S.$6)	$9 (U.S.$6)	$9 (U.S.$6)	$9 (U.S.$6)

NOTE 8: DEFERRED DEBT COSTS

(in millions)	2003	2002
Deferred foreign exchange translation adjustments	$ 324	$ 492
Discount and issue costs	61	95
	$ 385	$ 587

NOTE 9: LONG-TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds, notes and debentures, substantially all of which have annual sinking fund requirements (see Note 7), and revolving borrowings obtained under an agreement with the Province. BC Hydro's debt is either held or guaranteed by the Province.

Under the Hydro and Power Authority Act, BC Hydro is subject to a borrowing limit of $8,800 million after deduction of sinking funds. As at March 31, 2003, BC Hydro's total debt under the borrowing limit was $6,853 million (2002 – $6,906 million).

During fiscal 2003, BC Hydro issued bonds and debentures totalling $1,007 million (2002 – $350 million) with a weighted average effective interest rate of 4.7 per cent (2002 – 5.1 per cent) and a weighted average term to maturity of 6.9 years (2002 – 18.3 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity.

(dollar amounts in millions)	2003				2002	
	Canadian	Foreign	Total	Weighted Average Interest Rate[1]	Total	Weighted Average Interest Rate[1]
Maturing in fiscal:						
2003	$ –	$ –	$ –	– %	$ 446	7.0%
2004	300	–	300	8.0	300	8.0
2005	388	195	583	7.9	584	7.6
2006	413	228	641	5.0	560	5.1
2007	314	264	578	3.6	601	3.9
2008	9	735	744	3.1	–	
Total						
1 – 5 years	1,424	1,422	2,846	5.1	2,491	6.1
6 – 10 years	1,418	73	1,491	7.3	1,385	6.9
11 – 15 years	350	–	350	8.6	948	4.4
16 – 20 years	1,196	–	1,196	10.3	896	10.6
21 – 25 years	100	735	835	6.8	1,197	7.5
26 – 30 years	400	–	400	6.3	400	6.3
Over 30 years	–	441	441	7.4	478	7.4
Bonds, notes and debentures	4,888	2,671	7,559	6.9	7,795	6.8
Revolving borrowings	315	16	331	2.7	184	2.0
	$ 5,203	$ 2,687	7,890		7,979	
Less: Current portion			631		630	
Long-term debt			$ 7,259		$ 7,349	

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[1] *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and notes and the current interest rate in effect at March 31 for floating-rate bonds and notes, all before considering the effect of derivative financial instruments used to manage interest rate risk.*

Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred from contracts entered into by the Province on BC Hydro's behalf. BC Hydro has not experienced any losses due to the indemnity.

The following interest rate contracts were in place at March 31, 2003 and 2002, with a carrying value of nil at both dates. Average variable rates are based on the effective rates at the balance sheet date and vary over time.

(dollar amounts in millions)		2003		2002
Receive fixed, pay floating rate swaps				
Notional amount[1]	$	1,641	$	1,267
Weighted average receive rate		4.74%		5.59%
Weighted average pay rate		2.74%		2.13%
Weighted terms		6 years		4 years
Receive floating, pay fixed rate swaps				
Notional amount[1]	$	783	$	1,210
Weighted average receive rate		1.86%		2.04%
Weighted average pay rate		3.70%		3.70%
Weighted term		1 year		1 year
Receive floating, pay fixed rate swaps (future dated swap starting June 21, 2004)				
Notional amount[1]	$	200	$	n/a
Average receive rate		n/a		n/a
Average pay rate		5.51%		n/a
Remaining term		9 years		n/a
Receive floating, pay floating rate swaps				
Notional amount[1]	$	221	$	n/a
Average receive rate		1.45%		n/a
Average pay rate		1.27%		n/a
Remaining term		4 years		n/a

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[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

The following foreign currency contracts with a net carrying value of $(2) million (2002 – $16 million) were in place at March 31, 2003 and 2002. Such contracts are used to hedge foreign dollar principal and interest payments.

(dollar amounts in millions)		2003		2002
Cross-Currency Swaps[1]				
BC Hydro receives foreign currency:				
United States dollar – notional amount[2]	U.S.	$243	U.S.	$243
United States dollar – weighted average exchange rate		1.42		1.42
Remaining term		3 years		4 years
Japanese yen – notional amount[2]	¥	10,000	¥	10,000
Japanese yen – weighted average exchange rate		0.0135		0.0135
Remaining term		1 year		2 years

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[1] *Under these arrangements, BC Hydro receives or pays the foreign currency in exchange for Canadian currency.*

[2] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

(in millions)				2003			2002
					Net Principal Outstanding		Net Principal Outstanding
	In Currency Units	At the closing exchange rates at the balance sheet date (C$)	Foreign Currency Contracts	Sinking Funds	Before Hedging	After Hedging	After Hedging
Canadian	**$ 5,203**	**$ 5,203**	**$ –**	**$ (477)**	**$ 4,726**	**$ 5,122**	$ 4,561
U.S.	**$ 1,745**	**2,563**	**(8)**	**(547)**	**2,008**	**1,733**	2,329
Yen	**¥10,000**	**124**	**10**	**(13)**	**121**	**–**	–
		$ 7,890	**$ 2**	**$ (1,037)**	**$ 6,855**	**$ 6,855**	$ 6,890

Foreign Debt Management

As at March 31, 2003 BC Hydro hedged U.S. dollar debt, including sinking funds and cross currency swaps totalling U.S. $517 million with a Canadian dollar equivalent of $747 million (2002 – U.S. $710 million with a Canadian dollar equivalent of $1,101 million). This results in a net foreign currency exposure of U.S. $1,179 million (2002 – U.S. $1,440 million) with a Canadian dollar equivalent of $1,733 million (2002 – $2,295 million).

Revolving Borrowings

Revolving borrowings outstanding at March 31, 2003 have a weighted average remaining term to maturity of 40 days (2002 – 70 days). The authorized commercial paper borrowing program, which includes revolving borrowings, is limited to $1,400 million under the Fiscal Agency Agreement. Interest is charged based on prevailing money market rates.

Redeemable by the Bond Holder

Certain debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance for the Province contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. At March 31, 2003 this debt totalled $223 million (2002 – $233 million), net of related sinking funds, with maturity dates ranging from fiscal 2005 to fiscal 2010 (2002 – fiscal 2005 to fiscal 2010).

Redeemable by BC Hydro

BC Hydro debt of $91 million (2002 – $97 million), net of related sinking funds, with a coupon rate of 13.5 per cent (2002 – 13.5 per cent), is callable at BC Hydro's option on January 15, 2004 (2002 – January 15, 2004).

NOTE 10: FINANCIAL INSTRUMENTS

Fair Value

At March 31, 2003 and 2002, BC Hydro's financial instruments included temporary investments, accounts receivable, sinking funds, loans receivable, accounts payable, long-term debt, and interest rate and foreign exchange derivative financial instruments. Derivative financial instruments are held with the Province, which enters into such agreements with third parties on BC Hydro's behalf.

The fair value of BC Hydro's financial instruments approximates carrying amounts where applicable, except as shown in the following table:

(in millions)	2003		2002	
	Carrying Value[1]	**Fair Value[2]**	Carrying Value[1]	Fair Value[2]
Bonds, notes and debentures	**$ (7,559)**	**$ (8,826)**	$ (7,795)	$(8,527)
Revolving borrowings[3]	**(331)**	**(331)**	(184)	(184)
Long-term debt before current portion	**$ (7,890)**	**$ (9,157)**	$ (7,979)	$(8,711)
Sinking funds	**$ 1,037**	**$ 1,063**	$ 1,073	$ 1,094
Derivative financial instruments				
Net foreign currency contracts	**$ (2)**	**$ 38**	$ 16	$ 43
Interest rate swaps	**–**	**11**	–	(2)

[1] *Carrying value represents the amount which is recorded in BC Hydro's financial statements. Bracketed amounts represent liabilities.*

[2] *Market rates and prices used in determining fair value are as of the closing balance sheet date.*

[3] *As the interest rates on revolving borrowings are reset on a regular basis, fair value approximates carrying value.*

Credit Risk Management

BC Hydro is directly exposed to counterparty credit risk as a result of the sale of electricity and related services to its domestic customers and purchase of electricity from independent power producers. BC Hydro is also exposed to credit risk as a result of the purchase and sale of electricity and natural gas by its subsidiary, Powerex. Powerex's principal markets for power marketing services are power exchanges, power pools, and utilities and their affiliates in the western United States and western Canada. Powerex has concentrations of credit exposure to these parties throughout these regions. These concentrations of risk exposure may affect BC Hydro's overall credit risk in that certain Powerex customers may be similarly affected by changes in economic, regulatory, political and other factors. With respect to Powerex's sales and purchases, credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BC Hydro Board-approved policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis.

NOTE 11: EMPLOYEE BENEFIT PLANS

Employee Benefits

BC Hydro provides a defined benefit pension plan to virtually all employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. BC Hydro contributes amounts as prescribed by an independent actuary.

BC Hydro provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. BC Hydro also provides post-employment benefits other than pensions, including the short-term continuation of health care and life insurance to terminated employees or to survivors on the death of an employee. Post-employment benefits also include the pay-out of benefits that vest or accumulate, such as banked vacation.

Information about the defined benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

a) The net expense for BC Hydro's defined benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2003**	2002	**2003**	2002
Defined benefit plans	**$ 44**	$ 7	**$ 57**	$ 21

The transfer of approximately 1600 employees from BC Hydro to Accenture Business Services of British Columbia Limited (see Note 14) resulted in a curtailment of a significant portion of the BC Hydro defined benefit pension plan and other post-retirement benefit plans. A curtailment loss of approximately $5 million for the defined pension benefit plan and $25 million for the other post-retirement benefit plans has been charged to income in the current year.

The related settlement of a portion of the plans will be accounted for when it occurs, which is expected to be in fiscal 2004.

b) Information about BC Hydro's defined benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2003**	2002	**2003**	2002
Accrued benefit obligation	**$ 2,013**	$ 1,875	**$ 184**	$ 133
Fair value of plan assets	**1,785**	1,906	**–**	–
Funded status-plan surplus (deficit)	**$ (228)**	$ 31	**$ (184)**	$ (133)
Accrued benefit asset (liability)	**$ 71**	$ 79	**$ (82)**	$ (31)

No valuation allowance was required in 2003 and 2002.

c) Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2003**	2002	**2003**	2002
Accrued benefit obligation	**$ 2,013**	$ 59	**$ 184**	$ 133
Fair value of plan assets	**1,785**	–	**–**	–
Funded status-plan deficit	**$ (228)**	$ (59)	**$ (184)**	$ (133)

d) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2003	2002	**2003**	2002
Discount rate	**7%**	7%	**7%**	7%
Expected long-term rate of return on plan assets	**7%**	7%	**n/a**	n/a
Rate of compensation increase	**projected inflation + 2.0%**	projected inflation + 1.5%		

For measurement purposes, a 5.2% health care cost trend rate was assumed for 2003 (2002 – 6%).

e) Other information about BC Hydro's defined benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2003**	2002	**2003**	2002
Employer contributions	**$ 35**	$ 24	**$ –**	$ –
Employees' contributions	**$ 18**	$ 13	**$ –**	$ –
Benefits paid	**$ 91**	$ 89	**$ 7**	$ 6

NOTE 12: COMMITMENTS AND CONTINGENCIES

Energy Purchase Commitments

BC Hydro has entered into long-term contracts to purchase energy to meet a portion of its expected annual electricity requirements. The minimum obligations to purchase energy under these contracts have a total net present value of approximately $8,002 million, of which approximately $1,380 million relates to the purchase of natural gas, at market prices over 30 years, and natural gas transportation contracts. The remaining commitments are at predetermined prices.

Payments for the next five years are approximately (in millions): 2004 – $1,271; 2005 – $756; 2006 – $664; 2007 – $660; 2008 – $676.

Purchase of Outsourced Administration and Support Functions

BC Hydro has committed to the purchase of various administration and business support functions (see Note 14). The outsourcing agreement with Accenture Business Services of British Columbia (ABS) covers a period of 10 years and the net present value of the minimum payment commitments is approximately $954 million. Payments for the next 10 years are approximately (in millions): 2004 - $150; 2005 - $141; 2006 - $134; 2007 - $127; 2008 - $125; thereafter - $614.

BC Hydro will be responsible for the payment of certain amounts to ABS in the event of early termination of the outsourcing agreement.

ABS will be responsible for procurement of certain computer hardware to be used by BC Hydro. BC Hydro is required to pay the costs associated with acquisition and financing of this equipment under a leasing facility. The total value of assets to be purchased will vary over the term of the agreement, subject to a maximum of $35 million under the leasing facility, and with overall draws expected to reach $25 million within the first two years of the agreement term. BC Hydro will account for these asset transactions as capital leases.

Demand-side Management

BC Hydro has entered into Power Smart incentive and energy study agreements with customers for which the work on the projects is not yet complete. BC Hydro has committed to payments under these agreements totalling approximately $39 million over the next three years as follows (in millions): 2004 – $20; 2005 – $17; 2006 – $2.

These payments will be made contingent on the customers meeting certain criteria under the agreements.

Legal Contingencies

a) The rapid rise of wholesale power prices and in-state supply shortages caused significant financial hardship for a number of utilities in California during fiscal 2001. These utilities defaulted on payments to the California Power Exchange ("Cal Px") and the California Independent System Operator ("Cal ISO"). As a result of the payment defaults by these utilities, the Cal Px and Cal ISO have been unable to pay amounts owing to Powerex.

At March 31, 2003 the amount owing from Cal Px and Cal ISO was US $286 million (Cdn $419 million). A portion of this amount was not recognized as revenue due to market uncertainty. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis. These provisions, based on management's best estimates, are intended to provide for any remaining exposure.

In addition, the State of California has requested the Federal Energy Regulatory Commission ("FERC") to consider whether refunds should be made to Cal Px, Cal ISO and the California Department of Water Resources by various suppliers, including Powerex.

Due to the instability in the California market and ongoing developments in regulatory and legal proceedings, management cannot predict the outcome, and the amount ultimately collected may differ materially from management's current estimate. As a result of defaults by the California utilities and certain related government action, management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the collection process.

b) Powerex has been named, along with other energy providers, as a defendant in a number of lawsuits and regulatory proceedings, that allege that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. BC Hydro was also directly joined as a defendant in one lawsuit. Estimates of claims against all of the market participants arising from alleged market manipulations range from hundreds of millions of U.S. dollars to several billion U.S. dollars. Several investigations and regulatory proceedings at the state and federal levels are also looking into the causes of the high wholesale electricity prices in the western United States during the period in question. Powerex believes that the terms of its sales were just and reasonable, and both Powerex and BC Hydro believe that they conducted themselves properly at all times. Powerex is vigorously defending itself against these claims and is pursuing its claims for unpaid accounts for power sales. In response to an application by BC Hydro to be dismissed from the lawsuit in which it has been named, a U.S. federal court judge has ruled that BC Hydro is immune from these claims in the U.S., but that ruling is under appeal. Management cannot predict the outcome of the claims against Powerex and BC Hydro at this time.

c) On December 2, 2001 Enron Corp. ("Enron") and certain of its subsidiaries filed for bankruptcy protection. As a result, the long-term Power Purchase Agreement between Powerex and Enron terminated. Under a 1997 agreement between Alcan, Enron Power Marketing Inc. ("EPMI"), Powerex and BC Hydro, Alcan agreed to remain liable to Powerex for the payment obligations of EPMI, for which Alcan was originally responsible. Alcan did not pay this obligation so Powerex took the matter to arbitration. An arbitration award was issued on January 17, 2003, which required Alcan to pay Powerex US$100 million within 30 days, with interest accruing thereafter. This payment remains outstanding while Powerex has commenced enforcement proceedings and Alcan has applied to have the award set aside. At this time, the outcome of this claim is not determinable. Accordingly, no recovery in respect of the arbitration award will be recorded in the financial statements until collection is assured.

d) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

NOTE 13: SEGMENTED INFORMATION

Consistent with industry trends and best practices, BC Hydro management decided to move to a "Lines of Business" structure within the company as the best way to become more competitive, focus resources on distinct customer groups and more effectively meet those customers' needs. Starting in fiscal 2003, Generation, Transmission and Distribution Lines of Business ("LOBs") have been created along with two Service Organizations ("SOs") – Field Services and Engineering Services. Together with the existing corporate operations, shared services and subsidiaries including Powerex, BC Hydro began operating this way as of April 1, 2002.

The Generation, Transmission and Distribution LOBs have been created as profit centres. The SOs have been created as cost recovery centres and charge the cost of their services to the LOBs. The SOs will be transitioned to profit centres in the future. The costs of the corporate groups are allocated to the LOBs as business-sustaining costs on a reasonable basis.

The main components of the LOB business model for fiscal 2003 include:

External Revenues

- All domestic retail energy sales, including sales to residential, commercial and industrial customers, are recorded in Distribution. Wholesale energy sales are recorded in Generation.
- Electricity trade sales are recorded in Powerex, BC Hydro's wholly owned power marketing subsidiary.
- Third-party wheeling revenues are recorded in Transmission.
- External revenues for BC Hydro's other subsidiaries (including Westech and Powertech) are recorded in Other.
- External revenues relating to BC Hydro's fleet services are recorded in Field Services, which is shown as part of Other.

Inter-segment Revenues

- Transmission provides point-to-point and network transmission to Generation and Distribution respectively and charges based on the tariff rates approved by the Commission. Third parties are charged the same tariff rates for use of the system.
- Generation provides Distribution with electricity needed to meet Distribution's load requirements and charges based on a negotiated transfer price.
- Generation and Powerex also have a transfer pricing mechanism to charge for sale and purchase transactions between the two units.

The transfer pricing methodologies and business model used to determine the revenues and costs of the LOBs are under review. The results may be prepared on a different basis in the future depending on factors such as the final outcome of the Provincial Government's Energy Policy.

As this is the first year of operating under this "Lines of Business" structure, no comparative information is available for the prior year.

(in millions)

	Generation	Transmission	Distribution	Powerex	Other[1]	Consolidation Adjustments/ Eliminations	Total
Revenue – External	$ 67	$ 8	$2,367	$1,950	$ 33	$ (18)[2]	$ 4,407
Revenue – Internal	1,272	780	–	119	533	(2,704)	–
Depreciation and amortization	111	127	113	3	63	–	417
Finance charges	205	127	125	6	–	(6)	457
Restructuring costs	–	2	–	–	35	–	37
Net income (loss)	160	288	150	155	(245)	(90)[2]	418
Total assets	5,018	3,084	3,301	531	559	(569)	11,924
Capital expenditures and Demand-side management programs	187	167	276	3	92	–	725

Revenues by Geographic Location

Year ended March 31	**2003**	2002
British Columbia	**2,475**	2,450
Rest of Canada	**289**	192
United States	**1,643**	3,669
	4,407	6,311

Notes:

1. Other includes Engineering Services, Field Services and Shared Services organizations, other subsidiaries including Westech and Powertech and corporate costs.
2. These adjustments relate to the difference between BC Hydro's management reporting, used for risk management and performance measurement purposes, and Generally Accepted Accounting Principles (GAAP). For management reporting purposes, energy purchases bought for future resale are inventoried in a trade account and expensed when the energy is sold. The balance in the trade account is also marked to market at the end of each month and a gain or loss recorded. For GAAP reporting purposes, energy purchases bought for future resale are expensed in the period of purchase.

NOTE 14: ACCENTURE OUTSOURCING

During the year, BC Hydro entered into agreements for the outsourcing of various administration and support functions. Under the agreements, BC Hydro, through a wholly owned subsidiary company, entered into a partnership with Accenture Inc. to form Accenture Business Services of British Columbia Limited Partnership ("ABS"). On April 1, 2003 ABS acquired BC Hydro's personnel and assumed responsibilities related to the following services: customer services, Westech, network computing services, building and office services, human resources administration, payroll, purchasing, disbursements and financial services (collectively, the "Outsourced Services"). BC Hydro also entered into agreements for ABS to provide the Outsourced Services to BC Hydro for a ten-year period commencing April 1, 2003, and subject to a five-year renewal option that BC Hydro may exercise prior to the end of the ten-year initial term. In addition to providing the Outsourced Services to BC Hydro, ABS will provide services to third-party customers who formerly received services from the groups acquired from BC Hydro, and expects to add additional third-party customers.

ABS was formed under a partnership agreement between Accenture Business Services General Partner Inc. ("ABSGP") which acts as a general partner, and BC Hydro Services Asset Corp ("BCHSAC"), a wholly owned subsidiary of BC Hydro, which holds a limited partnership interest in the partnership. ABSGP will control and manage the partnership while BCHSAC will provide certain assets required by ABS to provide the Outsourced Services. BC Hydro will account for BCHSAC's limited partnership interest using the cost method. The limited partnership interest will also provide BCHSAC with a nominal share in the partnership profit allocations of ABS. These amounts will be recorded in income as earned.

To support the outsourcing transaction, BC Hydro transferred $111 million of assets to BCHSAC for proceeds equal to their net book value at the date of transfer. BC Hydro has committed to transfer additional assets at net book value to BCHSAC, primarily comprised of large software applications, as they become ready for use. All assets of BCHSAC will be used by ABS for provision of services to BC Hydro. In addition to the transfer of assets, BC Hydro permanently transferred approximately 1,600 employees, who were previously responsible for the outsourced functions, to ABS.

Costs of transaction structuring, legal, and other advisory services associated with the transaction, totalling approximately $10 million, have been deferred. The deferred transaction costs will be amortized on a straight-line basis over the initial term of the agreement. In addition, $35 million of restructuring costs, comprised primarily of severance and pension impacts (see Note 11), were expensed in the current period. BC Hydro will remain responsible for approximately $17 million of accrued vacation, accrued sick leave and time banks related to transferred employees after the transaction date. ABS will charge BC Hydro as transferred staff utilize these accrued time banks.

NOTE 15: COMPARATIVE INFORMATION

Certain amounts in the 2002 financial statements have been reclassified to conform to the presentation used in 2003.

NOTE 16: SUBSEQUENT EVENTS

On May 2, 2003 British Columbia Transmission Corporation (BCTC) was incorporated under the Company Act. BCTC will manage, maintain and operate the high-voltage electric system in B.C. and provide transparent open-access transmission services. BC Hydro will continue to be the sole owner of the existing core transmission assets. BCTC is targeting to commence operations by July 2003 and will be directly regulated by the Commission by late 2004.

CORPORATE GOVERNANCE

2003 STATEMENT OF CORPORATE GOVERNANCE PRINCIPLES

The Provincial Government recently established guiding principles on corporate governance for its Crown agencies. These guidelines identify the roles, responsibilities and accountabilities between Government and its Crowns, and also provides for a Shareholder's Letter of Expectations.

In 1998 the Board of Directors adopted a governance framework for BC Hydro, including a Director and Employee Code of Conduct. Since that time, the framework has been regularly reviewed to ensure its various components are appropriate for the Corporation's business needs from a governance perspective as well as being consistent with Government's guiding principles on Crown governance.

Since appointment in 2001, BC Hydro's current Board of Directors has undertaken significant work on the governance front – some examples include updated mandates for each Board Committee and the establishment of a new pension plan governance structure. In addition, Board reporting practices on dam safety were benchmarked against other organizations to satisfy Directors that the reporting approach continues to be appropriate.

Through its Committees*, the Board has been kept routinely abreast of other significant risks facing the Corporation. As well as ongoing operational risk issues, during the past year the Board also reviewed BC Hydro's succession plan and executive compensation policy.

Board and Committee meetings are scheduled together on a quarterly basis to make the most efficient use of both Board and Management time. During these sessions time is also set aside for continuing Director orientation and educational activities, which since 2001 have covered a wide range of topics and emerging issues.

In addition, the Board schedules two strategic Retreats annually. Wherever possible, these meetings are held outside the Lower Mainland so that Directors can visit BC Hydro's regional facilities, providing an opportunity to experience the operational side of the Corporation's business. During the past year, the Board visited facilities on Vancouver Island, the Peace and Columbia River systems.

With the benefit of examination and benchmarking of other corporations, the Board of Directors is assured that BC Hydro's established policies and practices are appropriate. The Board believes that while process and structure drive effective corporate governance, its success depends upon appropriate behaviours, attitudes and leadership. As a result, Directors subscribe to a principle of continuous improvement and intend to regularly evaluate performance so that the Board performs its due diligence and policy oversight role in the most effective manner.

For more information on the Shareholder's Letter of Expectations, BC Hydro's Board of Directors, its Committees and Subsidiary appointments see pages 131–133 or visit our web site at www.bchydro.com.

* Committees of the Board of Directors

The Audit and Risk Management Committee, Human Resources Committee and Corporate Governance Committee of the Board of Directors of BC Hydro are composed entirely of independent Directors.

The Board of Directors of BC Hydro's wholly owned subsidiary, Powerex Corp., has also appointed an Audit and Risk Management Committee composed of independent Directors.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT OF BC HYDRO

BOARD OF DIRECTORS

Lawrence I. Bell

Stephen T. Bellringer

Michael Costello
(resigned April 30, 2003)

Wanda C. Costuros

Elmer P. Derrick

Kenneth J. Finch

Alice D. Laberge

Nancy D. Olewiler

Peter J. Powell

Walter Saponja
(appointed May 16, 2003)

Jack Weisgerber

OFFICERS AND SENIOR MANAGEMENT

Lawrence I. Bell
Chair and
Chief Executive Officer

Michael Costello
President
(transferring to BCTC August 1, 2003)

Robert G. Elton
Executive Vice-President,
Finance and Chief Financial
Officer

Dawn Farrell
Executive Vice-President,
Generation
(effective May 1, 2003)

David A. Harrison
Executive Vice-President,
Shared Services and RFEI
(transferred to ABS April 1, 2003)

Raymond A. Aldeguer
Senior Vice-President,
Corporate Resources and
General Counsel

Yakout Mansour
Senior Vice-President,
System Operations and
Asset Management
(transferring to BCTC August 1, 2003)

Bev Van Ruyven
Senior Vice-President,
Distribution

Ronald J. Threlkeld
Senior Vice-President,
Transmission
(retired April 1, 2003)

Dennis Maniago
Vice-President,
Field Services

W. Bruce Sampson
Vice-President,
Sustainability

Glen S. Smyrl
Vice-President,
Engineering

Dana Hardy
Controller

Valerie C. Lambert
Treasurer

Debbie C. Lamming
Assistant Secretary

Robert J. Steele
Chief Information Officer

Myra E.M. Watson
Corporate Secretary

As at March 31, 2003

COMMITTEES OF THE BOARD OF DIRECTORS

EXECUTIVE

Lawrence I. Bell, Chair

Michael Costello
(removed May 28, 2003)

Alice D. Laberge

Jack Weisgerber

AUDIT & RISK MANAGEMENT

Alice D. Laberge, Chair

Wanda C. Costuros

Nancy D. Olewiler

Peter J. Powell

Walter Saponja
(appointed May 28, 2003)

CORPORATE GOVERNANCE

Nancy D. Olewiler, Chair

Stephen T. Bellringer

Elmer P. Derrick

Jack Weisgerber

HUMAN RESOURCES

Stephen T. Bellringer, Chair

Elmer P. Derrick

Kenneth J. Finch

Alice D. Laberge

ADVISORY COMMITTEE

PEACE RIVER/WILLISTON RESERVOIR

Jack Weisgerber, Chair

Lori Lynn Ackerman
(Fort St. John)

Don Bourassa
(Dawson Creek)

Gwen Johansson
(Hudson's Hope)

Bob McNabb
(Chetwynd)

Sean Moffatt
(Taylor)

Kevin Neary
(Mackenzie)

Darwin Pimm
(Fort St. John)

Donny Van Somer
(Kwadacha)

George Stedeford
(Mackenzie)

Leigh Summer
(Hudson's Hope)

Ron Terlesky
(Mackenzie)

As at March 31, 2002

SUBSIDIARIES

Powerex Corp.

BOARD OF DIRECTORS

Lawrence I. Bell
Michael Costello
(resigned April 30, 2003)
Wanda C. Costuros
Elmer P. Derrick
Robert A. Fairweather
Nancy D. Olewiler
Kenneth G. Peterson
Peter J. Powell
Walter Saponja
(appointed May 28, 2003)

OFFICERS

Lawrence I. Bell
Chair

Kenneth G. Peterson
President

Robert G. Elton
Executive VP, Finance and Chief Financial Officer

Douglas J. Little
VP, Trade Policy & Development

Myra E.M. Watson
Secretary

Debbie C. Lamming
Assistant Secretary

AUDIT & RISK MANAGEMENT COMMITTEE

Wanda C. Costuros, Chair
Elmer P. Derrick
Robert A. Fairweather
Nancy D. Olewiler
Peter J. Powell
Walter Saponja
(appointed May 28, 2003)

Powertech Labs Inc.

BOARD OF DIRECTORS

Kenneth J. Finch
William A. Best
Prabha Kundur
J. Gary Rodford
W. Bruce Sampson

OFFICERS

Kenneth J. Finch
Chair

Prabha Kundur
President

Nigel Austin
VP, Finance & Business Support

Myra E.M. Watson
Secretary

Debbie C. Lamming
Assistant Secretary

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BC hydro

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